

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

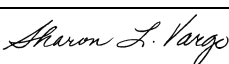
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Three Rivers, Michigan St. Joseph County, Michigan

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006**

**PREPARED BY:
CITY OF THREE RIVERS
FINANCE DEPARTMENT**

City of Three Rivers, Michigan

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City of Three Rivers, Michigan

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City of Three Rivers, Michigan

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Introductory Section

October 16, 2006

To the Citizens of the City of Three Rivers,
the Honorable Mayor, and City Commissioners

The Comprehensive Annual Financial Report of the City of Three Rivers for the fiscal year ended June 30, 2006 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City of Three Rivers. All disclosures necessary to enable a reader to gain an understanding of the City of Three Rivers' financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City of Three Rivers organizational chart, and a list of principal officials. The financial section includes the government-wide financial statements and the fund financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This reporting includes all funds of the City of Three Rivers. The City of Three Rivers provides a full range of traditional government services. The City of Three Rivers also provides for construction, repair, and maintenance of streets and storm drainage systems, and provides parks and recreational and sports activities for its citizens.

The City is responsible for the administration and enforcement of housing and building codes, as well as economic and community development activities. In accordance with the State of Michigan's statutes, the City treasurer is responsible for the collection of all property taxes for the City and overlapping governmental jurisdictions, including St. Joseph County, Glen Oaks Community College, Three Rivers Intermediate School District, and the Three Rivers Public Schools.

In addition to general government activities, the City Commission exercises, or has the ability to exercise, oversight of the Downtown Development Authority, the Industrial Development Authority, the Brownfield Redevelopment Authority, and the Three Rivers Public Library. These organizations are included in the component unit's columns in the basic financial statements.

City Location and Character

The City of Three Rivers encompasses an area of about 3.8 square miles in west central St. Joseph County, which is situated in the south central portion of Michigan's Lower Peninsula, bordering the state of Indiana. The City is approximately 30 miles south of Kalamazoo, 90 miles southwest of Lansing, the state capital, and 150 miles west of Detroit. The city of Sturgis, also located in St. Joseph County, lies about 15 miles to the southeast. Located where the St. Joseph, Rocky, and Portage Rivers converge, the City is a balanced mix of residential, commercial, and industrial properties in an attractive area of rolling hills and many lakes, affording numerous opportunities for a variety of year-round recreational activities. Three major highways (U.S. 131 and Michigan Highways 60 and 86) pass through Three Rivers, and I-94 lies only 20 miles north. The area is served by Conrail, various motor freight carriers, Three Rivers Airport (private flights), and Kalamazoo County Airport (freight and commercial service).

The City was founded in the early 1830s and acquired the name of Three Rivers because of the confluence of the St. Joseph, Portage, and Rocky Rivers. The City's tax base is diverse with residential, commercial, industrial, and utility valuations accounting for approximately 32.62 percent, 22.46 percent, 43.77 percent, and 1.15 percent, respectively, of its total taxable value for the fiscal year ended June 30, 2006.

The 2000 population of the City of Three Rivers was 7,328, a decrease of 1.14 percent below the 1990 population of 7,413. As small communities compete for residents, City administration must provide reasons for people to want to live in and visit Three Rivers. The three rivers that converge in the Three Rivers downtown area need to be viewed by our citizens as assets to be protected and preserved while enjoying their benefits.

Glen Oaks Community College at Centreville is located seven miles southeast of the area, and five two-year and four-year colleges and universities are available in Kalamazoo. Three Rivers Area Hospital (65 beds), Three Rivers Manor at River Forest (101 beds), and Heartland Health Care Center (100 beds) provide the area with local medical care and extended care, respectively, while Kalamazoo's two full-service hospitals and nearly 100 specialized agencies provide many area residents with every aspect of quality medical care.

The City of Three Rivers was incorporated in 1917 as a "Home Rule City" pursuant to the provisions of Act 279, Public Acts of Michigan, 1909, as amended. In accordance with its charter, the City is governed by a mayor and six-member City Commission who are elected on a nonpartisan basis for two-year terms. The City Commission appoints a City manager who serves at its pleasure and is the chief administrative officer of the City.

Economic Outlook

The City of Three Rivers is situated in southwestern Michigan between the two major markets of Detroit and Chicago, Illinois. Two lesser markets located to the north and south, respectively, are Kalamazoo and South Bend, Indiana that are connected by U.S. 131, a component of Michigan's commercial highway network. Three Rivers is located in St. Joseph County, one of the fastest-growing communities in southern lower Michigan.

The Three Rivers area draws from a three-county labor force of more than 160,000 workers which provides a skilled labor pool for new industries. The diverse local economy includes automotive, machine tool, metal fabrication, plastics, and paper companies. Given the diversity of the industrial base, the Three Rivers area continues to enjoy an unemployment rate below both the state and national averages and that rate is expected to remain below those averages in the future.

Major employers include American Axle Manufacturing, makers of automotive drive shafts and other parts for the automobile industry, which maintains a current employment level of 855 people. Meijer, Inc., a major retailer, has 181 full-time and 242 part-time employees. Johnson Corporation (143) and Armstrong Machine Works (320) are makers of rotary steam joints and traps used by the paper industry. Eaton Corporation (300) manufactures mirror actuators, while Lasco Industries (200) and Crocker Limited (140) are makers of fiberglass and plastic products. Weyerhaeuser Company (135) manufactures corrugated boxes and cartons.

The Three Rivers Area Enterprise Park is located at the intersection of M-60 and U.S. 131. North American Products, KDF Fluid Treatment Co., and Tamara Tool have located in the City's industrial park. Leads on prospective tenants for the park are continually being pursued. The success of the Three Rivers Area Enterprise Park is the result of a joint community effort. While the City continues to be actively involved in economic development initiatives, partners in the Enterprise Park development included the Three Rivers Area Chamber of Commerce, the Three Rivers Industrial Development Authority, and a local government coalition consisting of the Townships of Fabius, Lockport, and Park and the City of Three Rivers. Additional funding came from private and public sources. Enterprise Park is seen as a community asset and has strong support from local business and area residents.

Major Initiatives

The City of Three Rivers continually reviews and modifies its economic development and community enhancement goals. Small communities are involved in competitions for individuals as surely as they compete for corporate investment. In this way, community amenities and quality features are no longer frills - they are essential to a community's ability to market itself successfully. Three Rivers is a unique community with many assets (a new high school, natural water features, a historic downtown, etc.). We diligently work toward leveraging our assets, funding sources, and resources to tackle large projects and improve our surroundings. The City participates with the St. Joseph County Economic Development Corporation (SJC EDC) as well as the South-Central Michigan Planning Council (SMPC). On July 9, 2002, the City Commission reviewed and concurred with the SMPC Comprehensive Economic Development Strategy (CEDS). The SJC EDC is currently working on updating its Economic Development Strategy. The City's mayor sits on the SMPC Board and the City manager sits on the SJC EDC Board. Collaboration is the foundation of our organization. Our Community Council slogan is "Together We're Better." This premise permeates through our community, allowing us to be successful. The following information summarizes our Community Development Strategy.

Three Rivers is an older community, and as such, we have an older housing stock. In an effort to provide affordable and livable housing and improve our overall quality of life, we are attempting to improve our existing housing stock, both owner-occupied and rental units. Our infrastructure is also aging and is in need of upgrades or repair. The City has 45 miles of road surface to maintain within the City limits. Since asphalt has an approximate 15-year life span, we need to improve or replace three miles of streets per year to keep ahead of the deterioration. On August 6, 2003, the citizens of Three Rivers approved a 15-year millage levy to be utilized for street and sidewalk replacements and upgrades. A streets and sidewalk committee has been established to assist in assessing the areas around the city that need immediate attention. The committee consists of representatives of each district and a representative of city administration.

Short- and Long-term Objectives

We have instituted and will continue to develop housing programs to increase the value and integrity of our housing stock and provide safe, affordable housing, thus improving our neighborhoods and quality of life. The City was awarded a grant with H.O.M.E. funds in the amount of \$252,000 from the Michigan State Housing Development Authority under an Acquisition, Development, and Rehabilitation (ADR) Program. The City has acquired four residential properties for the homebuyer activity portion of this grant. Contractors completely renovated two homes at 508 Maple Street and 304 East Bennett. The City recently gained approval to lower the price of these homes to make them more affordable to qualified buyers. Under the same grant, the City hired contractors to build two new homes at 717 South Lincoln and 611 Swartz Street. Both of these homes have been sold. Qualifying families may receive additional assistance from MSHDA to cover the purchase price of the property. Upon sale, the City will be reimbursed for all of the expenses incurred for the initial purchase price of the property and the construction costs incurred while improving the property. This has been a great opportunity for the City to be involved in the improvement of our local housing stock and to assist qualifying families with affordable housing. There are several interested parties that are attempting to secure funding for the purchase of these properties and the City hopes to have all properties sold by the end of the next fiscal year. The City has just completed a Rental Rehabilitation Program (RRP) that specifically targeted the downtown area with additional incentives. The St. Joseph County Economic Development Corporation, along with the County Housing Task Force, recently completed a Housing Assessment and Strategy Report for the County. Rental rehabilitation was one of the suggestions made for the City of Three Rivers. The City of Three Rivers has been part of the housing task force for some time and understands that improving our housing stock is an important aspect of our viability. The City was recently awarded another CDBG grant in the amount of \$341,400 to improve eight apartments in the City's historic central business district, with 51 percent of the tenants having incomes at or below 80 percent of the area median income and the property owners must rent restrict 51 percent of the units during the five-year affordability period. Property owners must provide a minimum of 25 percent match. Four apartments have been completed and are an outstanding example of redevelopment in the area. The other four are currently undergoing renovations.

- The City currently has an active Brownfield Redevelopment Authority (BRA) Board which will continue to pursue redevelopment of the City's abandoned and under-utilized Brownfield areas. The Brownfield Redevelopment Authority has established a Tax Increment Financing District and a Revolving Loan Fund with the taxes recaptured from those properties that have a redevelopment plan approved by the City Commission.
- The City of Three Rivers is continuing to work on an Airport Expansion and Industrial Park project which will create over 100 new jobs, with an average wage rate of \$15.00 per hour, within the next five years. The project provides new infrastructure (water, sewer, roadway) and brings additional property into the City limits. The estimated total project cost is \$3,145,850. The City has issued bonds in the amount of \$400,000 for this project along with \$335,500 contributions from various funds. The City has secured CDBG grants in the amount of \$1,105,350 and a grant for infrastructure in the amount of \$1,080,000 from the Economic Development Administration. The Michigan Bureau of Aeronautics provided \$229,915 for reimbursement against the land acquisition cost of \$1,346,330 for the 210 acres adjacent to the existing airport property to be used for the airport industrial park. The City has executed an Act 425 land transfer agreement with Lockport Township that transferred the entire airport property into the City. The project is nearly complete and there is one building that has already been constructed in the Airport Industrial Park. Another building is currently under construction and it is estimated that it will cost \$1.4 million to build. There are discussions ongoing for the purchase of land or to lease land in the Park.
- The City had initially secured a CDBG grant in the amount of \$500,350 for the Downtown East Lot Improvement project and has also secured an additional \$345,327 in CDBG funds. This project will provide additional parking to the east of the historic downtown and improve the access to local businesses located in the surrounding area. The existing road will be relocated closer to the river and the underground utilities, both private and public, will be upgraded. The total project costs are estimated over \$2,600,000. The City has issued bonds in the amount of \$630,000 and various funds have made contributions to cover the costs of this project. The design phase has been completed and construction is now underway. There has been a considerable amount of work performed by the administration and the City's engineering firm to do some redesign on the retaining wall portion. The bids received for this portion of the project were more than expected, so administration hired a new engineering firm to design a new type of retaining wall which brought the cost of the project within budget. The immediate benefit will be the aesthetic improvement and livability of the area. There is also a long-range effect on the surrounding neighborhoods where improvements take place. A domino effect happens when people begin taking pride in their homes and their neighborhoods. Others in the neighborhood feel and see the changes and follow suit. The parking lot project, along with our other improvement programs (Rental and Housing rehabilitation, Brownfield Redevelopment, and Obsolete Property Rehabilitation, etc.), not only leverages individual investment but also has long-range implications to our entire community. The overall changes the project will provide include aesthetics, lighting, and parking. This will have a huge effect on perception as it relates to the ease of shopping downtown, safety concerns, and overall community pride. The positive effects of this project will permeate throughout the community and have a profound and far-reaching effect on all ages, races, and genders. Downtown is everyone's business and its success will benefit all.

- The City of Three Rivers has sold a 32-acre parcel to Welton Development to begin another subdivision located off of Portage Avenue. "Meadowbrook Farms" will consist of 20 single-family dwellings in Phase I. In September 2006, the City issued special assessment bonds in the amount of \$585,000 to defray the cost of the public improvements relating to this project. The majority of the public improvements have been installed and one home has been built in the subdivision. The current developer has indicated that he does not have the funds to continue the project and the City is considering alternative options to keep the project moving forward. The City intends to be an active participant and assist in any way possible to create more quality housing for our community.

Financial Information

The management of the City of Three Rivers is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse and to assure that adequate accounting data are compiled to allow for the preparation of financial reports in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Controls

The Three Rivers City Commission adopts an annual budget in accordance with the State of Michigan Uniform Budgeting Act, P.A. 621 of 1978. The City's fiscal year is July through June. The annual budget for the next fiscal year is adopted on or before the second regular meeting in June.

Budgetary controls include the fact that expenditures cannot exceed revenue for the year plus beginning fund balance. An encumbrance system is in place to ensure that this control is not violated. In addition, the City Commission must approve all budget amendments made throughout the fiscal year.

Cash Management

The City's investment policies follow the legal requirements of municipalities covered under Michigan Public Act No. 20 of 1943, as amended. We maximize the use of funds and ultimately try to increase the return on our dollars. The City's investments during the year consisted of cash management funds, certificates of deposit, and government agency securities.

Risk Management

The City of Three Rivers is a member of the Municipal Liability and Property Pool, which is sponsored by the Michigan Municipal League. It is operated according to the policies adopted by the Pool Board of Directors, and in accordance with Michigan Public Acts 138 (1982) and 36 (1988). The pool provides risk management, claims administration, legal defense, and reinsurance services for its members.

As a member of the Municipal Liability and Property Pool, the City of Three Rivers has liability coverage of up to \$10,000,000 per occurrence. We are actively involved in risk control through supervisory and employee training, facilities inspections, and utilization of the Michigan Municipal Leagues' Risk Control Staff.

Independent Audit

An annual audit of the accounting and financial records of the City is conducted by independent certified public accountants in accordance with Michigan Act 2 of the Public Acts of 1968, as amended, the Department of Treasury Bulletin for Audits of Local Units of Governments in Michigan, and the Federal Standards for Audit of Governmental Organizations, Programs, Activities and Functions. The auditors are required to audit all funds of the City in accordance with generally accepted auditing standards. The firm Plante & Moran, PLLC has performed audit services for the fiscal year ended June 30, 2006. Their opinion is presented in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Three Rivers for its Comprehensive Annual Financial Report for the fiscal years ended June 30, 2005. This was the eleventh consecutive year that the government has achieved this prestigious award. In order to be awarded a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A certificate of achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to conform to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

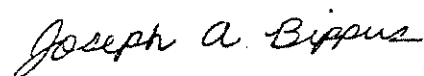
Acknowledgements

The preparation of the Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance department. The preparation of the report required a major effort from the accounting staff and we would like to express our appreciation to everyone who assisted and contributed to the effort.

We wish to acknowledge the professional manner in which the audit was conducted by Plante & Moran, PLLC and express our appreciation for their assistance.

We also thank the City Commission for the commitment and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,



Joseph A. Bippus
City Manager



Wendy J. Hochstedler, CPA
Finance Director/City Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Three Rivers,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

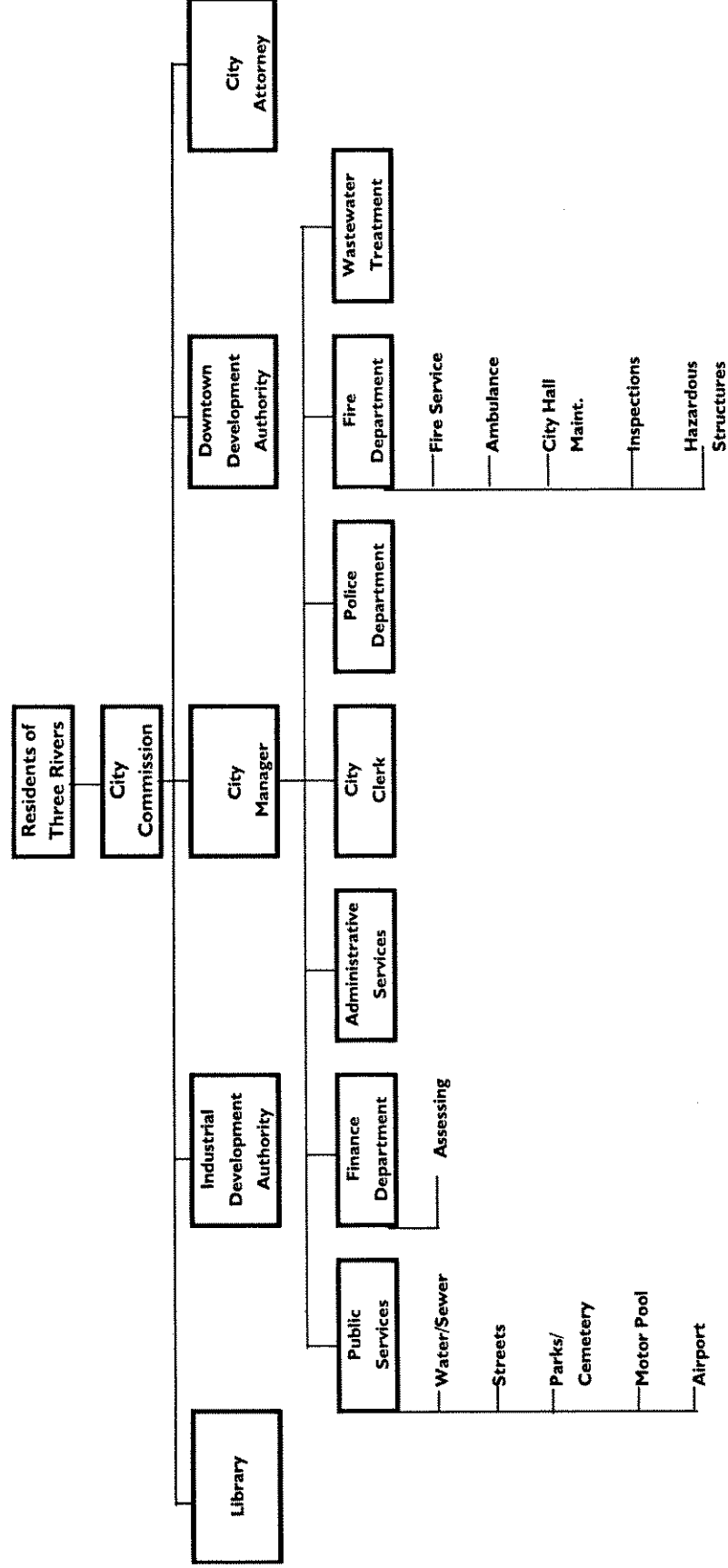


President

Executive Director

City of Three Rivers

Organizational Structure



City of Three Rivers, Michigan

CITY OFFICIALS

Legislative

Mayor.....	Thomas J. Lowry
Mayor Pro-Tem.....	Rowdy Keith
First District Commissioner.....	Rowdy Keith
Second District Commissioner.....	Elbert Foster
Third District Commissioner.....	Kurt Webb
Fourth District Commissioner.....	David D. York
At-Large Commissioner.....	Kenneth Cochran
At-Large Commissioner.....	Darryl Griffith

Administrative

City Manager.....	Joseph A. Bippus
City Attorney.....	J. Patrick O'Malley
City Finance Director/Treasurer.....	Wendy J. Hochstedler
Public Services Superintendent.....	Mark Glessner
Fire Chief.....	Danny Cross
Acting Police Chief.....	Tom Bringman
Administrative Services Director.....	Lou Ann Moord
Wastewater Treatment Plant Superintendent.....	Jim Rozeboom
City Clerk.....	Barbara Redford
City Assessor.....	Dale Hutson

Financial Section

Independent Auditor's Report

To the City Commission
City of Three Rivers, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Three Rivers as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Three Rivers' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Three Rivers as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Three Rivers' basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

To the City Commission
City of Three Rivers, Michigan

The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

August 30, 2006

City of Three Rivers, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Three Rivers, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$5,630 this year. The City reacted by closely monitoring all expenditures because of the planned use of reserves during the year, which resulted in an undesignated fund balance decrease of \$214,440 in the City's General Fund.
- The City secured a grant from the Michigan Natural Resources Trust Fund for Scidmore Park River Walk and Renovations in the amount of \$101,500. The project included items such as a river walk, lighting, parking lot, landscaping, canoe/kayak landing, catfish raising and education, farmer's market shelter, pathways, renovation of picnic shelters, and a bridge for barrier-free access. The project cost was \$294,990 and was considered complete as of the end of the fiscal year. The City intends to receive the grant funds as soon as the project has been inspected and closed out by the State, which should be sometime in late fall. This project was the primary use of General Fund reserves for this fiscal year.
- The City had a number of major projects in process. Capital improvement bonds were issued two years ago in the amount of \$2,600,000 and funding from state and federal grants was used to defray most of the costs. The projects are the airport expansion and industrial park, east downtown parking lot, American Axle & Manufacturing Company infrastructure improvements, reconstruction of Portage Avenue, and Welton Housing Development. The grand total estimated to complete these projects is \$8,033,000. The only major project that is still in progress is the East Downtown Parking Lot.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date with a comparison to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 2,071,062	\$ 3,094,058	\$ 3,326,531	\$ 3,520,762	\$ 5,397,593	\$ 6,614,820
Noncurrent assets	<u>13,179,042</u>	<u>11,405,174</u>	<u>16,027,325</u>	<u>15,816,152</u>	<u>29,206,367</u>	<u>27,221,326</u>
Total assets	15,250,104	14,499,232	19,353,856	19,336,914	34,603,960	33,836,146
Liabilities						
Current liabilities	783,536	898,039	299,285	213,529	1,082,821	1,111,568
Long-term liabilities	<u>5,735,409</u>	<u>5,537,970</u>	<u>6,048,321</u>	<u>6,290,453</u>	<u>11,783,730</u>	<u>11,828,423</u>
Total liabilities	<u>6,518,945</u>	<u>6,436,009</u>	<u>6,347,606</u>	<u>6,503,982</u>	<u>12,866,551</u>	<u>12,939,991</u>
Net Assets						
Invested in capital assets -						
Net of related debt	6,924,626	5,434,651	10,067,325	9,581,152	16,991,951	15,015,803
Restricted	<u>1,234,709</u>	<u>1,633,499</u>	<u>-</u>	<u>-</u>	<u>1,234,709</u>	<u>1,633,499</u>
Unrestricted	<u>571,824</u>	<u>995,073</u>	<u>2,938,925</u>	<u>3,251,780</u>	<u>3,510,749</u>	<u>4,246,853</u>
Total net assets	<u>\$ 8,731,159</u>	<u>\$ 8,063,223</u>	<u>\$ 13,006,250</u>	<u>\$ 12,832,932</u>	<u>\$ 21,737,409</u>	<u>\$ 20,896,155</u>

The City's combined net assets increased 1.87 percent from a year ago - increasing from \$21,337,620 to \$21,737,409. As we look at the governmental activities separately from the business-type activities, we can see that there was an increase of 2.6 percent in net assets. The major component of the increase was the City's purchase or construction of infrastructure improvements around the City.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year with a comparison to prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 732,740	\$ 957,355	\$ 3,517,550	\$ 3,410,251	\$ 4,250,290	\$ 4,367,606
Operating grants and contributions	1,032,771	684,419	-	-	1,032,771	684,419
Capital grants and contributions	-	1,811,093	-	-	-	1,811,093
General revenue:						
Property taxes	3,067,492	3,005,491	178,269	210,866	3,245,761	3,216,357
State-shared revenue	950,658	956,288	-	-	950,658	956,288
Unrestricted investment earnings	41,312	197,038	14,819	112,818	56,131	309,856
Miscellaneous revenue	344,612	383,043	-	-	344,612	383,043
Transfers	(203,089)	(1,656,141)	203,089	1,656,141	-	-
Total revenue	5,966,496	6,338,586	3,913,727	5,390,076	9,880,223	11,728,662
Program Expenses						
General government	1,426,825	1,302,550	-	-	1,426,825	1,302,550
Public safety	1,858,210	1,943,784	-	-	1,858,210	1,943,784
Public works	1,289,087	704,170	-	-	1,289,087	704,170
Community and economic development	1,047,826	1,107,106	-	-	1,047,826	1,107,106
Interest on long-term debt	118,077	24,663	-	-	118,077	24,663
Water and wastewater	-	-	2,927,596	2,921,232	2,927,596	2,921,232
Ambulance	-	-	812,813	720,433	812,813	720,433
Total program expenses	5,740,025	5,082,273	3,740,409	3,641,665	9,480,434	8,723,938
Change in Net Assets	\$ 226,471	\$ 1,256,313	\$ 173,318	\$ 1,748,411	\$ 399,789	\$ 3,004,724

Governmental Activities

The City's General Fund revenues have decreased by approximately \$7,063, which represents 0.2 percent below last year. Compared to last year, the property taxes increased by \$47,348 or 2.17 percent. Licenses and permits remained relatively the same while federal grants received decreased by \$92,004, state-shared revenue and grants decreased by \$5,630, and charges for services decreased by \$12,693, mostly due to a decrease in airport farm lease income. Fluctuating market conditions during the fiscal year contributed to the \$7,428 increase in investment earnings. Other revenues increased overall by \$49,921, with the main component being the sale of City property.

Expenditures, including transfers, increased by \$66,480 when compared to last year. The City received a grant for major improvements done at Scidmore Park and had elected not to go forward with other budgeted projects. The City continues to closely monitor its spending in all areas to ensure continuance of expected levels of service.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

Ambulance Fund - The Ambulance Fund had operating revenues increase by \$30,350 since last year. The increase is primarily due to increased control by management of the billing and collections procedures. The operating expenses increased by \$121,164, which was mainly due to an increase in personnel costs. There was net income of \$18,235, which was \$107,794 less than the previous year.

Water/Wastewater Fund - The Water/Wastewater Fund had an increase of \$76,949 in operating revenues since last year. This was due to the scheduled rate increase of both the water and sewer portion of the utility bills. The operating expenses increased by \$20,712, which was mainly due to an increase in personnel costs. The City is continuing efforts to replace old meters and try to recover lost revenue due to water loss. There was operating income of \$227,830, which was \$56,237 more than the previous year.

Component Units

Component units include funds such as the Industrial Development Authority, Downtown Development Authority, Brownfield Redevelopment Authority, and the City Library.

General Fund Budgetary Highlights

The General Fund pays for most of the City's governmental services. The most significant category is public safety which includes mostly police and fire, which incurred expenses of \$1,873,761 in 2006 or 46.2 percent of the total General Fund expenditures.

The City has a solid waste millage of .5 mills that generated \$89,565 to offset a portion of the annual cost of dump passes supplied to residents, and a portion of the annual city-wide leaf pickup program costs that are included in the total \$521,638 of Public Works activity expenditures for this fiscal year.

The \$616,784 total of other community services category of expenditures includes expenditures for the Parks Department activity in the amount of \$470,968 and the City's general liability insurance in the amount of \$65,246. Other costs included under this caption are contributions for participation in the St. Joseph County Economic Development Group, City newsletter costs, and other professional fees relating to prospecting on new economic development leads.

City of Three Rivers, Michigan

Management's Discussion and Analysis (Continued)

As shown in the required supplemental information, The City had originally budgeted operational expenditures of \$3,947,945. During the course of the year, the City amended the budget and changed the budgeted expenditures to \$4,342,976, or an overall increase of \$395,031. Operating results ended up being an increase over the original budget of \$224,301. The significant budget to actual differences were a result of all City departments consciously reducing expenditures within their departments without cutting services to the citizens.

Capital Asset and Debt Administration

The City continued making timely payments on revenue and general obligation bonds incurred to construct major capital-related improvements to infrastructure. There is a \$535,000 - 50 percent forgivable loan included in the City's overall debt obligations. The Michigan Economic Development Corporation will forgive \$10,000 for each new job created in the City's new airport industrial park within the next five years.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the next fiscal year reflects another decrease in state-shared revenue. Current economic conditions in the state of Michigan have put statutory revenue-sharing payments at risk of being reduced. The City Commission has adopted a conservative budget that facilitates community priorities and quality services. The amount of any possible reduction is unknown and if it exceeds the projected decrease, the City will at that time address what measures will be taken to balance the budget. Through the tough economic times around the country, the City of Three Rivers has maintained the same level of personnel and services to the public.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

City of Three Rivers, Michigan

Statement of Net Assets June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 2)	\$ 142,481	\$ 181,444	\$ 323,925	\$ 26,142
Investments (Note 2)	1,496,302	2,100,050	3,596,352	492,368
Receivables - Net:				
Customers	-	766,177	766,177	10,625
Special assessments	519,007	-	519,007	-
Accrued interest	12,996	-	12,996	20,973
Other	302,136	23,663	325,799	-
Internal balances	(133,200)	133,200	-	-
Advances on construction	(94,391)	94,391	-	-
Due from other governmental units	137,155	-	137,155	-
Prepaid expenses and other assets	207,583	27,606	235,189	528
Capital assets - Net (Note 3):				
Assets not being depreciated	3,780,948	536,720	4,317,668	774,740
Depreciated assets	8,879,087	15,490,605	24,369,692	93,378
Total assets	15,250,104	19,353,856	34,603,960	1,418,754
Liabilities				
Accounts payable	395,153	160,347	555,500	99,610
Accrued and other liabilities	148,739	138,938	287,677	8,008
Unearned revenue (Note 4)	123,014	-	123,014	-
Noncurrent liabilities (Note 6):				
Due within one year	308,952	285,000	593,952	11,178
Due in more than one year	5,426,457	5,675,000	11,101,457	74,804
Compensated absences:				
Due within one year	15,000	5,000	20,000	-
Due in more than one year	101,630	83,321	184,951	-
Total liabilities	6,518,945	6,347,606	12,866,551	193,600
Net Assets				
Invested in capital assets - Net of related debt	6,924,626	10,067,325	16,991,951	782,136
Restricted:				
Highways and streets	520,921	-	520,921	-
Nonexpendable - Cemetery perpetual care	176,065	-	176,065	-
Construction - Infrastructure	519,007	-	519,007	-
Airport hanger	18,716	-	18,716	-
Unrestricted	571,824	2,938,925	3,510,749	443,018
Total net assets	\$ 8,731,159	\$ 13,006,250	\$ 21,737,409	\$ 1,225,154

City of Three Rivers, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,426,825	\$ 683,940	\$ 470,365	\$ -
Public safety	1,858,210	-	-	-
Public works	1,289,087	48,800	562,406	-
Community and economic development	1,047,826	-	-	-
Interest on long-term debt	118,077	-	-	-
Total governmental activities	5,740,025	732,740	1,032,771	-
Business-type activities:				
Water and wastewater	2,927,596	2,861,587	-	-
Ambulance	812,813	655,963	-	-
Total business-type activities	3,740,409	3,517,550	-	-
Total primary government	<u>\$ 9,480,434</u>	<u>\$ 4,250,290</u>	<u>\$ 1,032,771</u>	<u>\$ -</u>
Component units:				
Industrial Development Authority	\$ 14,094	\$ -	\$ -	\$ -
Downtown Development Authority	84,795	-	-	-
Brownfield Redevelopment Authority	-	-	-	-
Library operations	421,643	10,949	90,491	-
Total component units	<u>\$ 520,532</u>	<u>\$ 10,949</u>	<u>\$ 90,491</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues - Unrestricted				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year (restated) (Note 11)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (272,520)	\$ -	\$ (272,520)	\$ -
(1,858,210)	-	(1,858,210)	-
(677,881)	-	(677,881)	-
(1,047,826)	-	(1,047,826)	-
(118,077)	-	(118,077)	-
(3,974,514)	-	(3,974,514)	-
-	(66,009)	(66,009)	-
-	(156,850)	(156,850)	-
-	(222,859)	(222,859)	-
(3,974,514)	(222,859)	(4,197,373)	-
-	-	-	(14,094)
-	-	-	(84,795)
-	-	-	-
-	-	-	(320,203)
-	-	-	(419,092)
3,067,492	178,269	3,245,761	373,872
950,658	-	950,658	-
41,312	14,819	56,131	8,389
344,612	-	344,612	94,805
(203,089)	203,089	-	-
4,200,985	396,177	4,597,162	477,066
226,471	173,318	399,789	57,974
8,504,688	12,832,932	21,337,620	1,167,180
\$ 8,731,159	\$ 13,006,250	\$ 21,737,409	\$ 1,225,154

City of Three Rivers, Michigan

Governmental Funds Balance Sheet June 30, 2006

	Special Revenue Funds			Capital Project Funds				
	General Fund	Major Street Fund	Municipal Street Fund	Airport Expansion	East Parking Lot	Special Assessments	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 23,274	\$ 868	\$ 142	\$ -	\$ 21,582	\$ 53,704	\$ 38,427	\$ 137,997
Investments	339,474	252,424	259,565	-	304,312	-	260,632	1,416,407
Receivables:								
Special assessments	-	-	-	-	-	519,007	-	519,007
Accrued interest	4,036	2,144	2,482	-	1,417	-	2,379	12,458
Other	90,529	78,431	-	-	-	-	133,176	302,136
Due from other funds	-	-	-	-	-	-	40	40
Due from other governmental units	137,155	-	-	-	-	-	-	137,155
Other assets	123,485	-	-	-	-	-	-	123,485
Inventories and prepaid expenses	83,719	-	-	-	-	-	-	83,719
Total assets	<u>\$ 801,672</u>	<u>\$ 333,867</u>	<u>\$ 262,189</u>	<u>\$ -</u>	<u>\$ 327,311</u>	<u>\$ 572,711</u>	<u>\$ 434,654</u>	<u>\$ 2,732,404</u>
Liabilities and Fund Balances (Deficit)								
Liabilities								
Accounts payable	\$ 111,345	\$ 115,333	\$ 34,394	\$ -	\$ 86,447	\$ 34,660	\$ 847	\$ 383,026
Accrued and other liabilities	98,928	813	39,146	-	-	-	13,386	152,273
Due to other funds	40	-	-	133,200	-	-	-	133,240
Advances on construction	-	-	-	-	94,391	-	-	94,391
Deferred revenue	-	-	-	-	-	519,007	123,014	642,021
Total liabilities	210,313	116,146	73,540	133,200	180,838	553,667	137,247	1,404,951
Fund Balances (Deficit)								
Reserved (Note 7)	102,435	-	-	-	-	-	-	102,435
Unreserved:								
Designated	266,771	-	-	-	-	-	-	266,771
Undesignated, reported in:								
General Fund	222,153	-	-	-	-	-	-	222,153
Special Revenue Funds	-	217,721	188,649	-	-	-	114,551	520,921
Capital Projects Funds	-	-	-	(133,200)	146,473	19,044	6,791	39,108
Permanent Funds	-	-	-	-	-	-	176,065	176,065
Total fund balances (deficit)	<u>591,359</u>	<u>217,721</u>	<u>188,649</u>	<u>(133,200)</u>	<u>146,473</u>	<u>19,044</u>	<u>297,407</u>	<u>1,327,453</u>
Total liabilities and fund balances (deficit)	<u>\$ 801,672</u>	<u>\$ 333,867</u>	<u>\$ 262,189</u>	<u>\$ -</u>	<u>\$ 327,311</u>	<u>\$ 572,711</u>	<u>\$ 434,654</u>	<u>\$ 2,732,404</u>
Total Fund Balance - Governmental Funds								\$ 1,327,453
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and are not reported in the funds								12,660,035
Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures								519,007
Long-term liabilities are not due and payable in the current period and are not reported in the funds								(5,852,039)
Internal Service Funds are included as part of governmental activities (net of capital assets and debt included above)								76,703
Net assets of governmental activities								\$ 8,731,159

City of Three Rivers, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	Special Revenue Funds			Capital Project Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Major Street Fund	Municipal Street	Airport Expansion	East Parking Lot	Special Assessments		
Revenue								
Property taxes	\$ 2,228,283	\$ -	\$ 839,209	\$ -	\$ -	\$ -	\$ -	\$ 3,067,492
Licenses and permits	95,310	-	-	-	-	-	-	95,310
Federal grants	5,448	-	161,093	153,655	-	-	123,001	443,197
State-shared revenues and grants	950,658	403,133	-	-	-	-	159,273	1,513,064
Charges for services	318,086	-	-	-	-	-	-	318,086
Investment income and rentals	33,981	5,174	2,309	-	(4,612)	-	4,403	41,255
Other	309,434	-	-	-	12,500	64,582	338,326	724,842
Total revenue	3,941,200	408,307	1,002,611	153,655	7,888	64,582	625,003	6,203,246
Expenditures - Current								
General government	1,036,106	-	-	-	-	-	-	1,036,106
Public safety	1,873,761	-	-	-	-	-	-	1,873,761
Public works	521,638	619,910	1,037,512	-	-	-	311,664	2,490,724
Community and economic development	-	-	-	5,386	102,963	415,759	459,915	984,023
Other community services	616,784	-	-	-	-	-	-	616,784
Total expenditures	4,048,289	619,910	1,037,512	5,386	102,963	415,759	771,579	7,001,398
Excess of Revenue Over (Under) Expenditures	(107,089)	(211,603)	(34,901)	148,269	(95,075)	(351,177)	(146,576)	(798,152)
Other Financing Sources (Uses)								
Transfers in	-	-	-	-	-	51,000	86,428	137,428
Transfers out	(11,428)	(75,000)	-	-	-	(254,089)	-	(340,517)
Bond discount	-	-	-	-	-	(11,690)	-	(11,690)
Issuance of debt	-	-	-	-	-	585,000	-	585,000
Total other financing sources (uses)	(11,428)	(75,000)	-	-	-	370,221	86,428	370,221
Net Change in Fund Balances	(118,517)	(286,603)	(34,901)	148,269	(95,075)	19,044	(60,148)	(427,931)
Fund Balances (Deficit) - Beginning of year	709,876	504,324	223,550	(281,469)	241,548	-	357,555	1,755,384
Fund Balances (Deficit) - End of year	\$ 591,359	\$ 217,721	\$ 188,649	\$ (133,200)	\$ 146,473	\$ 19,044	\$ 297,407	\$ 1,327,453

City of Three Rivers, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (427,931)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Asset purchases	2,023,136
Depreciation	(618,002)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (29,063)

Grant revenues are recorded in the statement of activities when earned; they are not report in the funds until collected or collectible within 60 days of year end (318,783)

Long-term receivables are recorded as revenue in the statement of activities when the contract initiated; they are not reported in the funds until collected or collectible within 60 days of year end (78,000)

Debt payments are not reported as expenditures on the statement of activities 305,878

Increase in accrued accumulated benefits (1,113)

Debt proceeds are not reported as financing sources on the statement of activities (585,000)

Internal Service Funds are also included as governmental activities (44,651)

Change in Net Assets of Governmental Activities \$ 226,471

City of Three Rivers, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Enterprise			Internal
	Ambulance	Water/ Wastewater	Total	Service
Assets				
Current assets:				
Cash and cash equivalents	\$ 282	\$ 181,162	\$ 181,444	\$ 9,635
Investments	390,172	1,709,878	2,100,050	79,895
Receivables:				
Customers	154,710	611,467	766,177	-
Other	3,338	20,325	23,663	538
Due from other funds	-	133,200	133,200	-
Prepaid expenses	12,069	15,537	27,606	379
Advances	-	94,391	94,391	-
Total current assets	560,571	2,765,960	3,326,531	90,447
Noncurrent assets - Capital assets	160,181	15,867,144	16,027,325	339,421
Total assets	720,752	18,633,104	19,353,856	429,868
Liabilities				
Current liabilities:				
Accounts payable	1,181	159,166	160,347	12,127
Accrued and other liabilities	9,564	129,374	138,938	1,617
Current portion of long-term debt	1,300	288,700	290,000	33,952
Total current liabilities	12,045	577,240	589,285	47,696
Long-term debt - Net of current portion	20,988	5,737,333	5,758,321	55,335
Total liabilities	33,033	6,314,573	6,347,606	103,031
Net Assets				
Investment in capital assets - Net of related debt	137,893	9,841,111	9,979,004	250,134
Unrestricted	549,826	2,477,420	3,027,246	76,703
Total net assets	\$ 687,719	\$ 12,318,531	\$ 13,006,250	\$ 326,837

City of Three Rivers, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise			Internal
	Ambulance	Water/ Wastewater	Total	Service
Operating Revenue				
Charges for services	\$ 647,019	\$ 2,851,786	\$ 3,498,805	\$ 392,127
Other	8,944	9,801	18,745	-
Total operating revenue	655,963	2,861,587	3,517,550	392,127
Operating Expenses				
Operations	760,662	2,060,754	2,821,416	313,973
Depreciation	52,151	573,003	625,154	119,873
Total operating expenses	812,813	2,633,757	3,446,570	433,846
Operating Income (Loss)	(156,850)	227,830	70,980	(41,719)
Nonoperating Revenue (Expense)				
Investment income	(3,184)	18,003	14,819	57
Interest expense	-	(293,839)	(293,839)	(2,989)
Property taxes	178,269	-	178,269	-
Total nonoperating revenues (expenses)	175,085	(275,836)	(100,751)	(2,932)
Income (Loss) - Before transfers and contributions	18,235	(48,006)	(29,771)	(44,651)
Transfers (to) from Other Funds	-	(51,000)	(51,000)	-
Capital Contributions from Other Funds	-	254,089	254,089	-
Change in Net Assets	18,235	155,083	173,318	(44,651)
Net Assets - Beginning of year	669,484	12,163,448	12,832,932	371,488
Net Assets - End of year	<u>\$ 687,719</u>	<u>\$ 12,318,531</u>	<u>\$ 13,006,250</u>	<u>\$ 326,837</u>

City of Three Rivers, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Ambulance	Water/ Wastewater	Total	Internal Service
Cash Flows from Operating Activities				
Receipts from customers	\$ 647,965	\$ 2,963,268	\$ 3,611,233	\$ 391,589
Payments to employees	(440,674)	(771,550)	(1,212,224)	(14,293)
Payments to suppliers	(334,449)	(1,183,729)	(1,518,178)	(303,853)
Net cash provided by (used in) operating activities	(127,158)	1,007,989	880,831	73,443
Cash Flows from Capital and Related Financing Activities				
Transfers to other funds	-	(51,000)	(51,000)	-
Purchase of capital assets	(15,426)	(566,808)	(582,234)	(13,105)
Advances for capital projects	-	145,609	145,609	-
Principal and interest paid on capital debt	-	(568,839)	(568,839)	(32,256)
Net cash used in capital and related financing activities	(15,426)	(1,041,038)	(1,056,464)	(45,361)
Cash Flows from Noncapital and Related Financing Activities - Property taxes	178,269	-	178,269	-
Cash Flows from Investing Activities				
Interest received on investments	(3,184)	18,003	14,819	57
Purchase of investment securities	(44,878)	193,841	148,963	(79,895)
Net cash provided by (used in) investing activities	(48,062)	211,844	163,782	(79,838)
Net (Decrease) Increase in Cash and Cash Equivalents	(12,377)	178,795	166,418	(51,756)
Cash and Cash Equivalents - Beginning of year	12,659	2,367	15,026	61,391
Cash and Cash Equivalents - End of year	<u>\$ 282</u>	<u>\$ 181,162</u>	<u>\$ 181,444</u>	<u>\$ 9,635</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (156,850)	\$ 227,830	\$ 70,980	\$ (41,719)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	52,151	573,003	625,154	119,873
Changes in assets and liabilities:				
Receivables/Due from other funds	(7,998)	101,681	93,683	(538)
Other assets	(12,069)	(15,537)	(27,606)	(379)
Accounts payable	(11,571)	121,979	110,408	(2,779)
Accrued and other liabilities	9,179	(967)	8,212	(1,015)
Net cash provided by (used in) operating activities	<u>\$ (127,158)</u>	<u>\$ 1,007,989</u>	<u>\$ 880,831</u>	<u>\$ 73,443</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, the Internal Service Fund acquired assets of \$63,100 through an installment purchase agreement.

City of Three Rivers, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2006

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 29,031
Taxes receivable	<u>52,813</u>
Total assets	<u>\$ 81,844</u>
Liabilities	
Due to other governmental units	\$ 78,361
Other payables	<u>3,483</u>
Total liabilities	<u>\$ 81,844</u>

City of Three Rivers, Michigan

Component Units Statement of Net Assets June 30, 2006

	Industrial Development Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Library Operations	Totals
Assets					
Cash and cash equivalents	\$ 9,418	\$ 75	\$ 11,204	\$ 5,445	\$ 26,142
Investments	130,465	17,829	-	344,074	492,368
Accounts receivable	16,953	5,702	-	8,943	31,598
Prepaid expenses	-	-	-	528	528
Capital assets	574,739	200,000	-	93,379	868,118
Total assets	731,575	223,606	11,204	452,369	1,418,754
Liabilities					
Accounts payable	91,066	-	-	8,544	99,610
Bonds payable	85,982	-	-	-	85,982
Accrued and other liabilities	240	-	-	7,768	8,008
Total liabilities	177,288	-	-	16,312	193,600
Net Assets					
Investment in capital assets -					
Net of related debt	488,757	200,000	-	93,379	782,136
Unrestricted	65,530	23,606	11,204	342,678	443,018
Total net assets	<u>\$ 554,287</u>	<u>\$ 223,606</u>	<u>\$ 11,204</u>	<u>\$ 436,057</u>	<u>\$ 1,225,154</u>

City of Three Rivers, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/Contributions
Governmental activities:			
Industrial Development Authority - Public services	\$ 14,094	\$ -	\$ -
Downtown Development Authority - Public services	84,795	-	-
Brownfield Redevelopment Authority - Public services	-	-	-
Library operations - Public services	421,643	10,949	90,491
Total governmental activities	<u>\$ 520,532</u>	<u>\$ 10,949</u>	<u>\$ 90,491</u>
General revenue:			
Property taxes			
Miscellaneous			
General revenues - Interest			
Total general revenue			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Component Units
Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets				
Industrial Development Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Library Operations	Total
\$ (14,094)	\$ -	\$ -	\$ -	\$ (14,094)
-	(84,795)	-	-	(84,795)
-	-	-	-	-
-	-	-	(320,203)	(320,203)
(14,094)	(84,795)	-	(320,203)	(419,092)
27,044	43,977	2,021	300,830	373,872
33,258	3,138	-	58,409	94,805
2,506	(368)	-	6,251	8,389
62,808	46,747	2,021	365,490	477,066
48,714	(38,048)	2,021	45,287	57,974
505,573	261,654	9,183	390,770	1,167,180
<u>\$ 554,287</u>	<u>\$ 223,606</u>	<u>\$ 11,204</u>	<u>\$ 436,057</u>	<u>\$ 1,225,154</u>

City of Three Rivers, Michigan

Component Units Balance Sheet - Modified Accrual June 30, 2006

	Industrial Development Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Library Operations	Totals
Assets					
Cash and cash equivalents	\$ 9,418	\$ 75	\$ 11,204	5,445	\$ 26,142
Investments	130,465	17,829	-	344,074	492,368
Accounts receivable	16,953	5,702	-	8,943	31,598
Prepaid expenses	-	-	-	528	528
Total assets	156,836	23,606	11,204	358,990	550,636
Liabilities					
Accounts payable	91,066	-	-	8,544	99,610
Accrued and other liabilities	240	-	-	7,768	8,008
Total liabilities	91,306	-	-	16,312	107,618
Fund Balance - Unrestricted	65,530	23,606	11,204	342,678	443,018
Total liabilities and fund balance	<u>\$ 156,836</u>	<u>\$ 23,606</u>	<u>\$ 11,204</u>	<u>\$ 358,990</u>	<u>\$ 550,636</u>
Total Fund Balances - Component Units					\$ 443,018
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					868,118
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(85,982)
Net assets of governmental activities					<u>\$ 1,225,154</u>

City of Three Rivers, Michigan

Component Units Statement of Revenue, Expenditures, and Changes in Fund Balances - Modified Accrual Year Ended June 30, 2006

	Industrial Development Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Library Operations	Totals
Revenue					
Property taxes	\$ 27,044	\$ 43,977	\$ 2,021	\$ 300,830	\$ 373,872
Charges for services	-	-	-	10,949	10,949
Investment income	2,506	(368)	-	6,251	8,389
Contributions	-	-	-	90,491	90,491
Other	33,258	3,138	-	58,409	94,805
Total revenue	62,808	46,747	2,021	466,930	578,506
Expenditures - Current -					
Community and economic development	146,585	84,657	-	419,030	650,272
Excess of Revenue Over (Under) Expenditures	(83,777)	(37,910)	2,021	47,900	(71,766)
Fund Balances - Beginning of year	149,307	61,516	9,183	294,778	514,784
Fund Balances - End of year	<u>\$ 65,530</u>	<u>\$ 23,606</u>	<u>\$ 11,204</u>	<u>\$ 342,678</u>	<u>\$ 443,018</u>

City of Three Rivers, Michigan

Component Units Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Component Units	\$ (71,766)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Asset purchases	238,848
Depreciation	(119,645)

Debt payments are not reported as expenditures on the statement of activities	<u>10,537</u>
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Change in Net Assets of Governmental Activities	<u>\$ 57,974</u>
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City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Three Rivers (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Three Rivers.

Reporting Entity

The City of Three Rivers, Michigan is a municipal corporation governed by an elected mayor and six-member City Commission. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Three Rivers, Michigan (the primary government) and its component units. The discretely presented component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units - Financial data of the following component units are included in the component units columns in the basic financial statements. The component units do not issue separate financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. A voting majority of the governing bodies of each of these component units is appointed by the City Commission.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's budget is subject to approval by the City Commission.
- b. The Industrial Development Authority was created to develop and promote industrial districts. The governing board consists of seven members appointed by the City Commission, two members appointed by Three Rivers Community Schools, and one each appointed by Glen Oaks Community College and St. Joseph County. The Authority's budget is subject to approval by the City Commission.
- c. The Library was created to provide the public with resources for reading, viewing, and audio entertaining and enlightenment. Significant corporate powers have been bestowed upon the Library. The Library's budget is subject to approval by the City Commission.
- d. The Brownfield Redevelopment Authority was created to encourage the redevelopment of contaminated property within the City by providing economic incentives through tax increment financing for certain eligible activities and Brownfield Redevelopment Authority single business tax credits. The Authority's budget is subject to approval by the City Commission.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, component units, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund and component unit financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability, and receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund - The Major Street Fund accounts for the construction, maintenance, and repairs of all major streets. Revenue received include state-shared gas and weight taxes, local contributions and bonding. It is used to control the expenditures of motor fuel taxes, which are earmarked by law and the State Constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

Municipal Street Fund - The Municipal Street Fund accounts for local road improvement projects not provided for under Act 51 of the Public Acts of 1951, as amended. Revenues received include road improvement millage passed by St. Joseph County and City street and sidewalk millage passed by City electorate.

Airport Expansion Fund - The Airport Expansion Fund was established to account for the expansion of the City's airport. The fund provides for payment of debt service on bonds issued to finance infrastructure improvements and the purchase of additional property associated with this expansion.

East Parking Lot Fund - The East Parking Lot Fund accounts for the development of capital facilities including the downtown parking lot project east of the historical downtown.

Note 1 - Summary of Significant Accounting Policies (Continued)

Special Assessments Fund - The Special Assessments Fund was established to account for various capital improvement projects throughout the City funded by special assessments.

The City reports the following major proprietary funds:

Water/Wastewater Fund - The Water/Wastewater Fund accounts for the operation and maintenance of the water and wastewater systems, capital additions and improvements, and retirement of revenue bonds. Financing is provided by user charges, property taxes, and contributions from other municipalities and customers. This fund also accounts for collections of the City's water and sewer billing surcharge that is earmarked for assistance in funding water and sewer line repairs.

Ambulance Fund - The Ambulance Fund accounts for operations of the City's ambulance service. Money for the operation of this fund is provided by user charges.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for major vehicle and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water/wastewater function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water/Wastewater Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 and December 1 based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on July 1, 2005, and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$150.9 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 11.4253 mills for operating purposes, 1.0000 mills for ambulance services, .5000 for solid waste services, .9932 mills for the improvement of County roads, and 3.6759 mills for the improvement of City streets and sidewalks. This resulted in \$1.75 million for general operating, \$144,000 for ambulance services, \$73,000 for solid waste, \$146,000 for County roads, and \$535,000 for City streets and sidewalks. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Enterprise Fund financial statements as tax revenue.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2005 taxable valuation of the City for Industrial Facilities Tax (IFT) totaled \$68.5 million, on which taxes levied consisted of 5.71265 mills for operating purposes, .5000 mills for ambulance services, .2500 mills for solid waste services, .4966 mills for the improvement of County roads, and 1.83795 mills for the improvement of City streets and sidewalks. This resulted in \$390,000 for general operating, \$34,000 for ambulance services, \$17,000 for solid waste, \$34,000 for County roads, and \$125,000 for City streets and sidewalks.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include amounts in demand deposits, as well as highly liquid investments with an original maturity of three months or less. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are recorded at fair value, based on quoted market prices.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible accounts.

Inventories and Prepaid Items - Inventories in the proprietary funds are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 to 40 years
Leasehold improvements	5 years
Water and sewer distribution systems	40 to 75 years
Buildings and improvements	40 to 50 years
Vehicles	3 to 5 years
Outdoor items	5 to 20 years
Office furnishings	5 to 7 years
Other tools and equipment	3 to 7 years
Books	5 years
Shelves	5 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The cash and investments of the component units of the City are commingled with all the City's cash and investments.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City includes all investments allowed by Public Act 196 of 1997. The City's investments are in compliance with this policy. The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$1,169,483 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Maturity Date
Federal Home Loan Bank Bond	\$ 389,376	October 30, 2009
Federal Home Loan Mortgage Association Bond	292,632	October 27, 2010
Federal Home Loan Bank Bond	196,750	March 8, 2012
Federal Home Loan Bank Bond	380,752	June 26, 2012
Federal Home Loan Bank Bond	241,095	July 17, 2013
Federal Home Loan Bank Bond	742,504	July 16, 2018
Federal Home Loan Bank Bond	194,500	March 24, 2014
Federal Home Loan Bank Bond	193,626	August 13, 2006
Federal Home Loan Bank Bond	107,216	July 30, 2018
Federal Home Loan Bank Bond	291,282	April 28, 2014
Federal Home Loan Mortgage Association Bond	289,689	February 15, 2018
Government National Mortgage Association Pool	10,229	March 20, 2020

Credit Risk - The City does not specifically identify credit risk in the investment policy adopted by the City. The City holds investments in U.S. governmental agencies that are rated with a credit risk rating of AAA.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Transfers	Balance June 30, 2006
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 2,842,304	\$ -	\$ -	\$ -	\$ 2,842,304
Construction in process	1,565,036	102,964	-	(729,356)	938,644
Net capital assets not being depreciated	4,407,340	102,964	-	(729,356)	3,780,948
Capital assets being depreciated:					
Land improvements	1,218,591	1,695,093	-	4,202,946	7,116,630
Buildings and improvements	2,176,643	2,250	-	-	2,178,893
Vehicles	1,744,682	98,911	-	-	1,843,593
Office furnishings	568,202	6,222	-	-	574,424
Outdoor items	4,571,850	-	-	(3,473,590)	1,098,260
Other tools and equipment	1,476,932	193,901	-	-	1,670,833
Subtotal	11,756,900	1,996,377	-	729,356	14,482,633
Accumulated depreciation:					
Land improvements	-	348,621	-	65,842	414,463
Buildings and improvements	1,340,868	53,457	-	491	1,394,816
Vehicles	1,145,990	120,356	-	38,822	1,305,168
Office furnishings	439,508	43,503	-	(47,919)	435,092
Outdoor items	817,097	37,387	-	(58,279)	796,205
Other tools and equipment	1,122,208	134,551	-	1,043	1,257,802
Subtotal	4,865,671	737,875	-	-	5,603,546
Net capital assets being depreciated	6,891,229	1,258,502	-	729,356	8,879,087
Net capital assets	\$ 11,298,569	\$ 1,361,466	\$ -	\$ -	\$ 12,660,035

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Transfers	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 254,572	\$ -	\$ -	\$ -	\$ 254,572
Construction in process	446,352	282,148	-	(446,352)	282,148
Net capital assets not being depreciated	700,924	282,148	-	(446,352)	536,720
Capital assets being depreciated:					
Water and sewer distribution systems	27,529,028	468,819	-	1,402,901	29,400,748
Buildings and improvements	6,249,005	-	-	(954,934)	5,294,071
Vehicles and equipment	3,693,369	85,360	-	(1,615)	3,777,114
Total cost	37,471,402	554,179	-	446,352	38,471,933
Accumulated depreciation:					
Water and sewer distribution systems	18,791,392	270,899	-	10,961	19,073,252
Buildings and improvements	2,012,906	109,587	-	(55,058)	2,067,435
Vehicles and equipment	1,551,876	244,668	-	44,097	1,840,641
Total accumulated depreciation	22,356,174	625,154	-	-	22,981,328
Net capital assets being depreciated	15,115,228	(70,975)	-	446,352	15,490,605
Net capital assets	\$ 15,816,152	\$ 211,173	\$ -	\$ -	\$ 16,027,325

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Capital Assets (Continued)

Capital asset activity for the City of Three Rivers' component units for the year ended June 30, 2006 was as follows:

	July 1, 2005	Additions	Disposals and Adjustments	Transfers	Balance June 30, 2006
Capital assets not being depreciated -					
Land	\$ 652,786	\$ 121,954	\$ -	\$ -	\$ 774,740
Capital assets being depreciated:					
Leasehold improvements	236,630	42,862		-	279,492
Office furnishings	125,142	18,037	(20,567)	-	122,612
Books	666,674	37,395	(23,232)	-	680,837
Shelves	60,828	10,023	(2,854)	-	67,997
Other tools and equipment	115,261	8,577	(43,067)	-	80,771
Total cost	1,204,535	116,894	(89,720)		1,231,709
Accumulated depreciation:					
Leasehold improvements	236,629	8,572	-	-	245,201
Office furnishings	91,684	37,065	(20,567)	-	108,182
Books	624,151	50,003	(23,232)	-	650,922
Shelves	60,270	2,563	(2,854)	-	59,979
Other tools and equipment	95,672	21,442	(43,067)	-	74,047
Total accumulated depreciation	1,108,406	119,645	(89,720)	-	1,138,331
Net capital assets being depreciated	96,129	(2,751)	-	-	93,378
Net capital assets	\$ 748,915	\$ 119,203	\$ -	\$ -	\$ 868,118

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 92,294
Public safety	264,059
Public works	368,374
Community and economic development	<u>13,148</u>
Total governmental activities	<u>\$ 737,875</u>

Business-type activities:

Water	\$ 61,012
Sewer	511,991
Ambulance	<u>52,151</u>
Total business-type activities	<u>\$ 625,154</u>

Construction Commitments - The City has active construction projects at year end. The City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Economic development	<u>\$ 54,472</u>	<u>\$ 1,507,897</u>

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. In addition, governmental funds and governmental activities on the government-wide statements defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 519,007	\$ -
Capital grants	-	123,014
Total	<u>\$ 519,007</u>	<u>\$ 123,014</u>

Note 5 - Interfund Due To/From, Advances, Transfers, and Contributions

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Water/Wastewater Fund	Special Assessment Fund	\$ 51,000
Major Street Fund	Local Street Fund	75,000
General Fund	CDBG Grant Fund	5,339
General Fund	Rental Rehab Fund	40
General Fund	Cemetery Perpetual Care Fund	6,049
Special Assessment Fund	Water/Wastewater Fund	254,089
Total		<u>\$ 391,517</u>

The transfer from Water/Wastewater Fund to the Special Assessment Fund was to cover a portion of the developer costs. The transfer from the Major Street Fund to the Local Street Fund was to cover the cost of maintenance on local streets during the year. The transfer to the Cemetery Fund is in accordance with the City Ordinance to transfer 1/3 of all cemetery lot sales. The transfer to the CDBG Grant from the General Fund was to cover administration costs related to the ADR homes. The transfer to the Rental Rehab Fund from the General Fund was to cover administrative costs.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Interfund Due To/From, Advances, Transfers, and Contributions (Continued)

Transfer to the Water/Wastewater Fund is to transfer funds for the water and sewer portion of capital projects. Funds were collected in the Special Assessment Fund for the project.

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
Water/Wastewater Fund	Airport Expansion Fund	\$ 133,200
Rental Rehab Fund	General Fund	<u>40</u>
Total		<u>\$ 133,240</u>

Advances to/from Other Funds

Water/Wastewater Fund	East Parking Lot Fund	<u>\$ 94,391</u>
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The Water/Wastewater Fund loaned funds to the Airport Expansion to assist with operating cash needs. The General Fund loaned funds to the Rental Rehab Fund for administrative costs.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
MEDC forgivable loan	4.00%	2012	\$ 535,000	\$ -	\$ -	\$ 535,000	\$ -
Land contract - Land purchase	5.00%	2008	187,000	-	(55,878)	131,122	-
General obligation bonds -							
Economic development	2.00%-4.45%	2024	2,500,000	-	(100,000)	2,400,000	100,000
General obligation bonds -							
Economic development	2.50%-4.35%	2017	2,145,000	-	(150,000)	1,995,000	155,000
Special Assessment bonds -							
Economic development	3.00%-4.50%	2026	-	585,000	-	585,000	20,000
Installment purchases - Equipment	5.10%-5.95%	2007	55,453	-	(27,037)	28,416	28,416
Installment purchases - Equipment	4.80%	2011	-	63,100	(2,229)	60,871	5,536
Subtotal			5,422,453	648,100	(335,144)	5,735,409	308,952
Accumulated employee benefits	-		115,517	173,423	(172,310)	116,630	15,000
Total governmental activities			\$ 5,537,970	\$ 821,523	\$ (507,454)	\$ 5,852,039	\$ 323,952
Business-type Activities							
General obligation bonds - Water/wastewater	4.25%-5.00%	2021	\$ 6,235,000	\$ -	\$ (275,000)	\$ 5,960,000	\$ 285,000
Accumulated employee benefits	-		85,823	152,882	(150,384)	88,321	5,000
Total business-type activities			\$ 6,320,823	\$ 152,882	\$ (425,384)	\$ 6,048,321	\$ 290,000
Component Unit - Mortgage	6.00%	2013	\$ 96,519	\$ -	\$ (10,537)	\$ 85,982	\$ 11,178

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Long-term Debt (Continued)

Annual debt service requirements (excluding accumulated employee benefits) to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 308,952	\$ 193,230	\$ 502,182	\$ 285,000	\$ 284,373	\$ 569,373
2008	416,930	184,192	601,122	300,000	272,260	572,260
2009	291,093	175,861	466,954	310,000	258,760	568,760
2010	306,394	166,049	472,443	325,000	244,810	569,810
2011	342,040	154,602	496,642	335,000	230,185	565,185
2012-2016	2,245,000	614,080	2,859,080	1,935,000	906,930	2,841,930
2017-2021	1,115,000	227,332	1,342,332	2,470,000	383,250	2,853,250
2022-2026	710,000	57,348	767,348	-	-	-
Total	<u>\$ 5,735,409</u>	<u>\$ 1,772,694</u>	<u>\$ 7,508,103</u>	<u>\$ 5,960,000</u>	<u>\$ 2,580,568</u>	<u>\$ 8,540,568</u>

	Component Units		
	Principal	Interest	Total
2007	\$ 11,178	\$ 4,994	\$ 16,172
2008	11,848	4,325	16,173
2009	12,581	3,592	16,173
2010	13,347	2,826	16,173
2011	14,160	2,013	16,173
2012-2013	22,868	1,390	24,258
Total	<u>\$ 85,982</u>	<u>\$ 19,140</u>	<u>\$ 105,122</u>

Note 7 - Reserved and Designated Fund Equity

Fund balance has been reserved and designated for the following purposes:

	Reserved	Designated
General Fund:		
Airport hangar reserve	\$ 18,716	\$ -
Inventories and prepaid expenses	83,719	-
Police training	-	7,073
Compost equipment	-	213,067
Municipal building maintenance	-	21,621
Vacation and sick leave	-	25,010
Total	<u>\$ 102,435</u>	<u>\$ 266,771</u>

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for underground storage tanks, airport liability, and medical benefit claims. The City participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, property loss, torts, and errors and omissions. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plan

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of up to 7.4 percent, depending on the bargaining unit.

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$251,151 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) no postretirement cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of market deviations from the 8 percent assumed rate of return over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2005	2006
Annual pension costs (APC)	\$ 194,274	\$ 229,587	\$ 251,151
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Date as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 7,541,306	\$ 8,183,277	\$ 8,685,681
Actuarial accrued liability (AAL) (entry age)	\$ 8,377,590	\$ 9,364,988	\$ 10,626,073
Unfunded AAL (UAAL)	\$ 836,284	\$ 1,181,711	\$ 1,940,392
Funded ratio	90%	87%	82%
Valuation payroll	\$ 2,673,660	\$ 2,824,304	\$ 3,045,325

City of Three Rivers, Michigan

Notes to Financial Statements June 30, 2006

Note 10 - Bond Issuance

Subsequent to year end, the City issued Special Assessment bonds totaling \$495,000 to provide resources for the Bentwaters Apartments Public Improvements.

Note 11 - Restatement of Net Assets

Net assets as of June 30, 2005 have been restated for as additional construction in progress costs incurred in fiscal year 2004.

	Governmental Activities	
	Capital Assets	Net Assets
Balance at June 30, 2005	\$ 10,857,104	\$ 8,063,223
Prior period restatement - Construction in progress	<u>441,465</u>	<u>441,465</u>
Restated balance at June 30, 2005	<u>\$ 11,298,569</u>	<u>\$ 8,504,688</u>

Required Supplemental Information

City of Three Rivers, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,352,683	\$ 2,226,422	\$ 2,228,283	\$ 1,861
Licenses and permits	90,300	100,700	95,310	(5,390)
Intergovernmental revenue:				
State grants	932,564	1,019,831	950,658	(69,173)
Miscellaneous	164,318	292,047	309,434	17,387
Federal grants	-	5,448	5,448	-
Charges for services	333,280	315,710	318,086	2,376
Investment income	50,000	40,000	33,981	(6,019)
Total revenue	3,923,145	4,000,158	3,941,200	(58,958)
Expenditures				
General government:				
City commission	22,865	21,565	19,696	1,869
City manager	165,892	162,392	157,895	4,497
Legal and professional	113,000	113,000	111,957	1,043
City assessor	54,211	54,211	52,192	2,019
City clerk	155,882	153,360	145,795	7,565
Boards, committees, and commissions	2,650	2,650	1,174	1,476
Finance department	244,958	245,058	246,208	(1,150)
Building and grounds	145,619	125,619	99,076	26,543
Administrative services	96,315	96,315	93,991	2,324
Cemetery	121,761	121,761	108,122	13,639
Total general government	1,123,153	1,095,931	1,036,106	59,825
Public safety:				
Police	1,428,623	1,450,439	1,397,173	53,266
Fire	369,951	400,351	392,182	8,169
Inspections	74,181	74,181	68,284	5,897
Hazardous structures	23,651	18,651	16,030	2,621
Planning	2,250	2,250	92	2,158
Total public safety	1,898,656	1,945,872	1,873,761	72,111

City of Three Rivers, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Public works:				
General maintenance	\$ 128,796	\$ 150,796	\$ 124,483	\$ 26,313
Street lighting	85,411	78,986	73,261	5,725
Solid waste management	93,683	90,321	89,834	487
Airport	168,129	260,882	234,060	26,822
Total public works	476,019	580,985	521,638	59,347
Culture and recreation - Parks and recreation	262,039	556,860	470,968	85,892
Other functions:				
Insurance and bonds	90,000	65,250	65,246	4
Special projects	98,078	98,078	91,998	6,080
Total other functions	188,078	163,328	157,244	6,084
Total expenditures	3,947,945	4,342,976	4,059,717	283,259
Excess of Expenditures Over Revenue	(24,800)	(342,818)	(118,517)	224,301
Fund Balance - Beginning of year	709,876	709,876	709,876	-
Fund Balance - End of year	<u>\$ 685,076</u>	<u>\$ 367,058</u>	<u>\$ 591,359</u>	<u>\$ 224,301</u>

City of Three Rivers, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2006

	Special Revenue Fund - Major Street			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental revenue:				
State trunkline maintenance	\$ 46,000	\$ 46,000	\$ 39,226	\$ (6,774)
Gas and weight tax distributions	367,100	367,100	352,503	(14,597)
State grants and other revenue	11,182	11,182	11,404	222
Investment income	6,000	6,000	5,174	(826)
 Total revenue	 430,282	 430,282	 408,307	 (21,975)
 Major street maintenance:				
Drains - Storm sewers	45,441	163,848	141,299	22,549
Routine maintenance	56,543	344,543	309,503	35,040
Bridge maintenance	10,406	10,406	5,427	4,979
Street sweeping	51,701	51,701	35,471	16,230
Traffic service	30,593	38,493	38,110	383
Ice and snow control	28,572	28,572	19,577	8,995
Traffic signals	7,000	7,000	5,948	1,052
 Total major street maintenance	 230,256	 644,563	 555,335	 89,228
 Trunkline maintenance:				
Surface maintenance	5,636	5,636	1,600	4,036
Sweeping and flushing	28,380	28,380	14,716	13,664
Shoulder maintenance	2,504	2,504	990	1,514
Trees and shrubs	19,475	19,475	8,307	11,168
Drainage and backslopes	6,888	6,888	2,097	4,791
Traffic signs	30,784	30,784	11,419	19,365
Pavement marking	7,388	7,388	1,857	5,531
Winter maintenance	34,565	34,565	23,589	10,976
 Total trunkline maintenance	 135,620	 135,620	 64,575	 71,045
 Transfers	 75,000	 75,000	 75,000	 -
 Total expenditures	 440,876	 855,183	 694,910	 160,273
 Excess of Expenditures Over Revenues	 (10,594)	 (424,901)	 (286,603)	 138,298
 Fund Balances - Beginning of year	 504,324	 504,324	 504,324	 -
 Fund Balances - End of year	 <u>\$ 493,730</u>	 <u>\$ 79,423</u>	 <u>\$ 217,721</u>	 <u>\$ 138,298</u>

City of Three Rivers, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

	Special Revenue - Municipal Street			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 879,391	\$ 850,002	\$ 839,209	\$ (10,793)
Investment income	37,500	8,500	2,309	(6,191)
Federal grants	-	161,093	161,093	-
Total revenue	916,891	1,019,595	1,002,611	(16,984)
Expenditures - Routine maintenance	997,090	1,235,593	1,037,512	198,081
Excess of Expenditures Over Revenue	(80,199)	(215,998)	(34,901)	181,097
Fund Balance - Beginning of year	223,550	223,550	223,550	-
Fund Balance - End of year	<u>\$ 143,351</u>	<u>\$ 7,552</u>	<u>\$ 188,649</u>	<u>\$ 181,097</u>

City of Three Rivers, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2006

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
General Employees' Retirement System						
12/31/99	\$ 6,045,872	\$ 6,383,166	\$ 337,294	95	\$ 394,864	15
12/31/00	6,672,787	7,462,708	789,921	89	414,727	31
12/31/01	7,250,897	7,942,526	691,629	91	345,834	27
12/31/02	7,541,306	8,377,590	836,284	90	343,654	31
12/31/03	8,183,277	9,364,988	1,181,711	87	395,483	42
12/31/04	8,685,681	10,626,073	1,940,392	82	463,144	64
12/31/05	9,157,657	10,860,151	1,702,494	84	374,197	57

City of Three Rivers, Michigan

Note to Required Supplemental Information June 30, 2006

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except that debt proceeds and transfers in/out have been included in the "revenue" and "expenditures" categories, rather than as an "other financing sources/uses." All annual appropriations lapse at fiscal year end.

The annual budget is prepared by the City management and adopted by the City Commission; subsequent amendments are approved by the City Commission. All funds of the City are included in the budget. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end may be reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level. Expenditures at this level significantly in excess of amounts budgeted for activities are a violation of Michigan law. Department heads may make transfers of appropriations within a department other than personnel-related. Although appropriations may not be transferred to or from personnel-related line items or between departments without City Commission approval, State of Michigan law does not require that expenditures stay within these budgeted amounts, as long as expenditures remain within the approved departmental appropriations.

Noncompliance - The Airport Expansion Fund has a fund deficit as of June 30, 2006, which is prohibited by the Uniform Budgeting and Accounting Act (Public Act 2 of 1968, as amended by Public Act 621 of 1978).

Other Supplemental Information

Nonmajor Governmental Funds

Special Revenue Funds - The Local Street Fund accounts for the construction, maintenance, and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, bonding, etc. It is used to control the expenditures of motor fuel taxes, which are earmarked by law and the State Constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

The Neighborhood and Community Development Fund accounts for the Community Development Block Grant federal financial assistance programs.

The Rental Rehab Fund accounts for funds received to make repairs to apartments in the City's downtown historic district.

Capital Projects Fund - The S/A Bentwaters Project Fund accounts for the repayment of special assessment bonds issued for the purpose of purchasing infrastructure in accordance with a separate development agreement between a developer and the City.

Permanent Fund - The Riverside Cemetery Perpetual Care Fund accounts for money held in trust for the perpetual care of the City cemetery. Revenues consist of investment earnings and charges for services.

City of Three Rivers, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds			Capital Projects Fund	Permanent Fund	
	Local Streets	Neighborhood and Community Development	Rental Rehab	S/A Bentwaters Project	Riverside Perpetual Care	Total Nonmajor Governmental Funds
Assets						
Cash and investments	\$ 166	\$ 13,039	\$ 18,125	\$ 6,791	\$ 306	\$ 38,427
Investments	86,405	-	-	-	174,227	260,632
Receivables:						
Accrued interest	847	-	-	-	1,532	2,379
Other	28,676	-	104,500	-	-	133,176
Due from other funds	-	-	40	-	-	40
Total assets	\$ 116,094	\$ 13,039	\$ 122,665	\$ 6,791	\$ 176,065	\$ 434,654
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 847	\$ -	\$ -	\$ -	\$ -	\$ 847
Accrued and other liabilities	696	12,690	-	-	-	13,386
Deferred revenue	-	349	122,665	-	-	123,014
Total liabilities	1,543	13,039	122,665	-	-	137,247
Fund Balances - Unreserved	114,551	-	-	6,791	176,065	297,407
Total liabilities and fund balances	\$ 116,094	\$ 13,039	\$ 122,665	\$ 6,791	\$ 176,065	\$ 434,654

City of Three Rivers, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds			Capital Projects Fund	Permanent Fund	Total
	Local Streets	Neighborhood and Community Development	Rental Rehab	S/A Bentwaters Project	Riverside Perpetual Care	Nonmajor Governmental Funds
Revenue						
Intergovernmental revenue:						
Federal grants	\$ -	\$ -	\$ 123,001	\$ -	\$ -	\$ 123,001
State grants and other revenue	11,404	-	-	-	-	11,404
Gas and weight tax distributions	147,869	-	-	-	-	147,869
Investment income	1,383	-	-	-	3,020	4,403
Other	-	-	331,535	6,791	-	338,326
Total revenue	160,656	-	454,536	6,791	3,020	625,003
Expenditures						
Public services	257,332	-	-	-	54,332	311,664
Community/Economic development	-	5,339	454,576	-	-	459,915
Total expenditures	257,332	5,339	454,576	-	54,332	771,579
Excess of Revenue Over (Under)						
Expenditures	(96,676)	(5,339)	(40)	6,791	(51,312)	(146,576)
Other Financing Sources -						
Transfers in	75,000	5,339	40	-	6,049	86,428
Net Change in Fund Balances	(21,676)	-	-	6,791	(45,263)	(60,148)
Fund Balances - Beginning of year	136,227	-	-	-	221,328	357,555
Fund Balances - End of year	<u>\$ 114,551</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,791</u>	<u>\$ 176,065</u>	<u>\$ 297,407</u>

City of Three Rivers, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2006

	Special Revenue Fund - Local Street			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Intergovernmental revenue				
Gas and weight tax distributions	\$ 151,100	\$ 151,100	\$ 147,869	\$ (3,231)
State grants and other revenue	11,182	11,182	11,404	222
Investment income	1,000	1,000	1,383	383
Transfers	75,000	75,000	75,000	-
Total revenue	238,282	238,282	235,656	(2,626)
Expenditures				
Drains - Storm sewers	28,897	47,897	39,524	8,373
Routine maintenance	57,359	106,839	95,238	11,601
Street sweeping	61,796	70,796	59,115	11,681
Traffic service	38,083	40,083	34,307	5,776
Ice and snow control	52,147	52,147	29,148	22,999
Total expenditures	238,282	317,762	257,332	60,430
Excess of Expenditures Over Revenues	-	(79,480)	(21,676)	57,804
Fund Balances - Beginning of year	136,227	136,227	136,227	-
Fund Balances - End of year	\$ 136,227	\$ 56,747	\$ 114,551	\$ 57,804

City of Three Rivers, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2006

	Special Revenue Fund - Neighborhood/Community Development			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Transfers	\$ -	\$ 10,000	\$ 5,339	\$ (4,661)
Expenditures - Community development	-	10,000	5,339	4,661
Excess of Revenues Over Expenditures	-	-	-	-
Fund Balances - Beginning of year	-	-	-	-
Fund Balances - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Three Rivers, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2006

	Special Revenue Fund - Rental Rehab			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Federal grants	\$ -	\$ 475,000	\$ 123,001	\$ (351,999)
Other	-	-	331,535	331,535
Transfers	-	-	40	40
Total revenue	-	475,000	454,576	(20,424)
Expenditures - Community development	-	475,000	454,576	20,424
Excess of Revenue Over Expenditures	-	-	-	-
Fund Balances - Beginning of year	-	-	-	-
Fund Balances - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Fiduciary Funds

General Trust and Agency Fund - The General Trust and Agency Fund accounts for the payroll paid to the employees, after reimbursement from the benefited funds.

Tax Collections Fund - The Tax Collections Fund accounts for tax collections that are held by the City in the capacity of trustee. The collections are then transferred to the City's General Fund and to other governmental units on a timely distribution basis.

City of Three Rivers

Fiduciary Funds Combining Statement of Changes in Assets and Liabilities All Agency Funds Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>General Trust and Agency</u>				
Assets - Cash and cash equivalents	\$ 63,328	\$ 4,128,024	\$ (4,187,869)	\$ 3,483
Liabilities - Other payables	\$ 63,328	\$ 4,128,024	\$ (4,187,869)	\$ 3,483
<u>Tax Collections</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 10,642,091	\$ (10,616,543)	\$ 25,548
Taxes receivable	52,845	52,813	(52,845)	52,813
Total assets	\$ 52,845	\$ 10,694,904	\$ (10,669,388)	\$ 78,361
Liabilities - Due to other governmental units	\$ 52,845	\$ 10,694,903	\$ (10,669,387)	\$ 78,361
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 63,328	\$ 14,770,115	\$ (14,804,412)	\$ 29,031
Taxes receivable	52,845	52,813	(52,845)	52,813
Total assets	\$ 116,173	\$ 14,822,928	\$ (14,857,257)	\$ 81,844
Liabilities				
Due to other governmental units	\$ 52,845	\$ 10,694,903	\$ (10,669,387)	\$ 78,361
Other payables	63,328	4,128,024	(4,187,869)	3,483
Total liabilities	\$ 116,173	\$ 14,822,927	\$ (14,857,256)	\$ 81,844

Statistical Section

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2004; schedules presenting government-wide information include information beginning in that year.

City of Three Rivers, Michigan

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Three Rivers, Michigan

Net Assets by Component

	2004	2005	2006
Governmental Activities			
Invested in capital assets - Net of related debt	\$ 2,968,974	\$ 5,876,116	\$ 6,924,626
Restricted	3,471,114	1,633,499	1,234,709
Unrestricted	<u>652,207</u>	<u>995,073</u>	<u>571,824</u>
Total net assets	<u>\$ 7,092,295</u>	<u>\$ 8,504,688</u>	<u>\$ 8,731,159</u>
Business-type Activities			
Invested in capital assets - Net of related debt	\$ 7,411,813	\$ 9,581,152	\$ 10,067,325
Unrestricted	<u>3,475,204</u>	<u>3,251,780</u>	<u>2,938,925</u>
Total net assets	<u>\$ 10,887,017</u>	<u>\$ 12,832,932</u>	<u>\$ 13,006,250</u>
Primary Government in Total			
Invested in capital assets - Net of related debt	\$ 10,380,787	\$ 15,457,268	\$ 16,991,951
Restricted	3,471,114	1,633,499	1,234,709
Unrestricted	<u>4,127,411</u>	<u>4,246,853</u>	<u>3,510,749</u>
Total net assets	<u>\$ 17,979,312</u>	<u>\$ 21,337,620</u>	<u>\$ 21,737,409</u>

Source: City of Three Rivers

City of Three Rivers, Michigan

Changes in Governmental Net Assets

	Fiscal Year Ended June 30		
	2004	2005	2006
Primary Government			
Governmental Activities			
General government	\$ 1,395,801	\$ 1,302,550	\$ 1,426,825
Public safety	1,964,599	1,943,784	1,858,210
Public works	1,955,623	704,170	1,289,087
Community and economic development	1,286,882	665,641	1,047,826
Interest on long-term debt	23,244	24,663	118,077
Total governmental activities	6,626,149	4,640,808	5,740,025
Program Revenue			
Charges for services	698,732	957,355	732,740
Operating grants and contributions	274,479	684,419	1,032,771
Capital grants and contributions	1,412,840	1,811,093	-
Total program revenue	2,386,051	3,452,867	1,765,511
Net (Expense) Revenue	(4,240,098)	(1,187,941)	(3,974,514)
General Revenues			
Property taxes	2,998,127	3,005,491	3,067,492
State-shared revenues	1,571,248	956,288	950,658
Investment earnings	25,276	197,038	41,312
Miscellaneous	401,743	383,043	344,612
Transfers	75,141	(1,656,141)	(203,089)
Total general revenues and transfers	5,071,535	2,885,719	4,200,985
Change in Net Assets	\$ 831,437	\$ 1,697,778	\$ 226,471

Source: City of Three Rivers

City of Three Rivers, Michigan

Changes in Business-type Net Assets

	Fiscal Year Ended June 30		
	2004	2005	2006
Operating Revenue			
Sale of water	\$ 698,683	\$ 707,316	\$ 751,382
Sewage disposal charges	1,626,550	1,652,103	1,682,226
Septage haulers fees	135,881	137,644	197,625
Interest and penalty charges	48,760	40,627	55,995
BOD surcharge	36,637	76,529	51,306
RTS surcharge	30,986	29,717	36,223
Other charges for services	724,711	766,315	742,793
Total operating revenue	3,302,208	3,410,251	3,517,550
Operating Expenses			
Cost of sewage treatment	692,403	760,944	791,343
Other operation and maintenance costs	1,757,166	1,956,796	2,030,073
Depreciation	660,788	615,738	625,154
Total operating expenses	3,110,357	3,333,478	3,446,570
Operating Income	191,851	76,773	70,980
Nonoperating Revenue (Expenses)			
Property taxes	176,056	210,866	178,269
Investment income	(31,107)	112,818	14,819
Interest expense	(322,375)	(308,187)	(293,839)
Gain on disposal of assets	380	-	-
Total nonoperating revenues (expenses)	(177,046)	15,497	(100,751)
Income (Loss) - Before contributions and other items	14,805	92,270	(29,771)
Capital Contributions from Other Funds	-	1,656,141	254,089
Transfers			
Transfers from other funds	7,218	-	11,343
Transfers to other funds	(82,359)	-	(62,343)
Total transfers	(75,141)	-	(51,000)
Change in Net Assets	<u>\$ (60,336)</u>	<u>\$ 1,748,411</u>	<u>\$ 173,318</u>

Source: City of Three Rivers

City of Three Rivers, Michigan

Fund Balances, Governmental Funds

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 68,738	\$ 241,232	\$ 266,412	\$ 165,456	\$ 212,446	\$ 143,799	\$ 36,170	\$ 43,176	\$ 23,453	\$ 18,716
Unreserved	725,678	767,589	792,649	787,234	1,046,527	976,826	609,208	711,674	686,423	572,643
Total General Fund	<u>\$ 794,416</u>	<u>\$ 1,008,821</u>	<u>\$ 1,059,061</u>	<u>\$ 952,690</u>	<u>\$ 1,258,973</u>	<u>\$ 1,120,625</u>	<u>\$ 645,378</u>	<u>\$ 754,850</u>	<u>\$ 709,876</u>	<u>\$ 591,359</u>
All Other Governmental Funds										
Reserved	\$ 55,621	\$ 99,588	\$ 128,438	\$ -	\$ 125,670	\$ 109,345	\$ 437,485	\$ -	\$ -	\$ -
Unreserved - Reported in:										
Special Revenue Funds	646,648	768,575	901,012	910,253	1,030,537	959,483	601,622	2,119,710	864,101	520,921
Capital Project Funds	-	-	-	-	-	-	513,739	571,964	(39,621)	39,108
Debt Service Funds	84,355	82,645	71,376	42,471	1,498	-	-	-	-	-
Permanent Funds	193,195	200,143	209,791	204,961	191,114	257,247	210,948	209,440	221,328	176,065
Total all other governmental funds	<u>\$ 979,819</u>	<u>\$ 1,150,951</u>	<u>\$ 1,310,617</u>	<u>\$ 1,157,685</u>	<u>\$ 1,348,819</u>	<u>\$ 1,326,075</u>	<u>\$ 1,763,794</u>	<u>\$ 2,901,114</u>	<u>\$ 1,045,808</u>	<u>\$ 736,094</u>

City of Three Rivers, Michigan

Changes in Fund Balances, Governmental Funds

	Year Ended June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenue										
Property taxes	\$ 1,511,400	\$ 1,655,128	\$ 1,683,984	\$ 1,776,921	\$ 1,903,975	\$ 2,068,959	\$ 2,712,448	\$ 2,998,127	\$ 3,005,491	\$ 3,067,492
Licenses and permits	36,647	38,245	45,034	37,871	40,711	48,847	51,443	55,293	96,743	95,310
Federal grants	1,030,857	234,450	59,169	204,942	160,320	223,644	280,952	488,463	1,523,797	443,197
State-shared revenues and grants	1,885,140	1,524,101	1,613,972	1,841,273	1,784,490	1,680,656	1,580,275	1,571,598	1,609,255	1,513,064
Charges for services	209,865	199,575	219,659	250,741	274,741	275,125	289,072	305,428	330,779	318,086
Interest and rentals	107,475	137,649	140,127	39,299	291,090	145,155	84,998	29,237	181,410	41,255
Other	162,922	183,181	248,356	329,431	210,599	155,229	232,108	1,077,702	433,850	718,051
Total revenue	4,944,306	3,972,329	4,010,301	4,480,478	4,665,926	4,597,615	5,231,296	6,525,848	7,181,325	6,196,455
Expenditures - Current										
General government	764,908	706,748	738,559	902,474	889,891	994,003	1,044,993	984,642	1,166,864	1,036,106
Public safety:										
Police	1,082,924	1,119,506	1,164,032	1,219,496	1,268,974	1,305,440	1,402,947	1,377,334	1,400,039	1,397,173
Fire	238,395	303,770	285,747	278,847	310,655	411,230	450,661	415,003	411,409	392,182
Inspections	49,932	51,821	52,296	53,205	63,427	60,351	47,799	69,771	71,495	68,284
Hazardous structures	12,570	1,564	3,000	5,862	9,792	4,519	67,716	9,085	19,842	16,030
Planning	847	1,500	989	1,167	487	1,310	450	26	-	92
Act 302 Police Training	943	3,824	3,934	2,245	4,397	3,100	1,079	-	-	-

City of Three Rivers, Michigan

Changes in Fund Balances, Governmental Funds (Continued)

	Year Ended June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Expenditures - Current (Continued):										
Public works:										
Streets	\$ 562,071	\$ 448,874	\$ 510,449	\$ 876,840	\$ 574,192	\$ 824,671	\$ 873,191	\$ 1,532,014	\$ 4,435,639	\$ 1,969,086
General maintenance	268,870	266,838	233,801	266,180	328,913	319,456	336,950	240,797	236,442	214,317
Street lighting	69,798	69,722	72,506	72,813	75,955	74,544	74,033	70,653	74,549	73,261
Airport	110,805	63,436	61,182	44,124	62,451	148,332	104,793	111,005	164,242	234,060
Community and economic development	1,274,471	153,140	50,390	228,165	77,220	91,729	351,451	2,653,140	1,327,475	984,023
Recreation and culture	128,867	154,816	136,968	152,009	201,612	207,796	250,619	281,122	227,054	470,968
Other functions	330,421	127,946	681,986	515,604	242,918	362,455	278,317	315,572	206,178	145,816
Debt service	157,755	153,986	155,460	151,600	50,584	21,510	-	-	-	-
Total expenditures	5,053,577	3,627,491	4,151,299	4,770,631	4,161,468	4,830,446	5,284,999	8,060,164	9,741,228	7,001,398
Excess of Revenue Over (Under)										
Expenditures	(109,271)	344,838	(140,998)	(290,153)	504,458	(232,831)	(53,703)	(1,534,316)	(2,559,903)	(804,943)
Other Financing Sources (Uses)										
Debt issuance	-	-	308,975	-	-	-	-	2,712,000	2,310,000	585,000
Bond discount	-	-	-	-	-	-	-	-	-	(11,690)
Contributions to other funds	-	-	-	-	-	-	-	-	(1,656,141)	-
Transfers in	196,444	243,641	208,755	212,011	98,655	184,536	708,497	127,398	-	144,219
Transfers out	(160,807)	(209,890)	(176,474)	(176,331)	(91,849)	(178,930)	(712,891)	(56,782)	(6,424)	(340,517)
Total other financing sources (uses)	35,637	33,751	341,256	35,680	6,806	5,606	(4,394)	2,782,616	647,435	377,012
Net Change in Fund Balances	\$ (73,634)	\$ 378,589	\$ 200,258	\$ (254,473)	\$ 511,264	\$ (227,225)	\$ (58,097)	\$ 1,248,300	\$ (1,912,468)	\$ (427,931)

City of Three Rivers, Michigan

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

City of Three Rivers, Michigan

Taxable Value and Actual Value of Taxable Property

Tax Year	Fiscal Year Ended June 30	Taxable Value by Property Type						Non- homestead Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percentage of Actual
		Real Property			Industrial	Personal Property	Total Taxable Value			
		Residential	Commercial							
1996	1997	\$ 38,319,371	\$ 21,603,404	\$ 16,277,426	\$ 29,381,673	\$ 105,581,874	61.1576	\$ 230,638,414	46	
1997	1998	40,746,097	24,607,521	16,930,765	27,372,551	109,656,934	60.0802	249,245,248	44	
1998	1999	42,748,501	25,961,384	17,102,672	29,906,950	115,719,507	59.3014	253,522,634	46	
1999	2000	44,387,644	34,943,691	17,485,561	28,111,781	124,928,677	59.6684	282,456,728	44	
2000	2001	47,273,317	36,649,520	17,817,545	30,181,022	131,921,404	58.3599	304,259,890	43	
2001	2002	50,211,762	37,629,588	18,354,429	30,488,110	136,683,889	58.9780	311,427,254	44	
2002	2003	53,105,178	40,204,479	18,456,692	29,616,729	141,383,078	58.1549	325,670,408	43	
2003	2004	55,371,161	41,403,646	18,744,076	34,286,172	149,805,055	58.8270	351,514,586	43	
2004	2005	58,214,813	37,371,132	19,337,168	37,668,370	152,591,483	61.3230	349,559,268	44	
2005	2006	62,064,185	39,061,213	19,540,800	33,279,550	153,945,748	60.6154	370,959,348	41	

Note: Under Michigan law, the revenue base is referred to as "taxable value."

This amount represents a capped value that is limited by the rate of inflation or 5 percent (lower of the two) on properties without ownership transfers, the uncapping of property values upon ownership transfer, and the addition of new construction values each year.

Source: City of Three Rivers

City of Three Rivers, Michigan

Millage Rates - Direct City Taxes

Tax Year	Fiscal Year Ended	General Operating	Library Operating	Voted Millage (Library)	Voted Millage (EMS)	Solid Waste Management	Voted Millage City Streets and Sidewalks	Debt	Total Direct Taxes
1996	1997	11.6597	0.9716	0.7432	2.0000	-	-	3.5885	18.9630
1997	1998	11.6597	0.9716	0.7432	0.8930	-	-	3.6530	17.9205
1998	1999	11.6597	0.9716	0.7432	0.8772	-	-	3.4762	17.7279
1999	2000	11.6151	0.9678	0.7403	0.9077	-	-	3.7710	18.0019
2000	2001	11.5001	0.9582	0.7329	0.8978	0.5360	-	2.4520	17.0770
2001	2002	11.5001	0.9582	0.7329	1.9725	0.4725	-	2.4260	18.0622
2002	2003	11.5001	0.9582	0.7329	1.1000	0.4000	3.7000	-	18.3912
2003	2004	11.4253	0.9519	0.7281	1.0000	0.4000	3.6759	-	18.1812
2004	2005	11.4253	0.9519	0.7281	1.2000	0.4000	3.6759	-	18.3812
2005	2006	11.4253	0.9519	0.7281	1.0000	0.5000	3.6759	-	18.2812

Source: City of Three Rivers

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents, as follows:

	General Operating	Library Operating	Voted Millage (Library)	Voted Millage (EMS)	Solid Waste Management	Voted Millage City Streets and Sidewalks
2005	11.4253	0.9519	0.7281	1.9596	1.0000	3.6759

Direct and Overlapping Property Tax Rates

Overlapping Taxes										Total Tax Rate	
County Operating	County 911 Service	County Road Maintenance	Commission on Aging	Community College	Intermediate School District	Special Education	School Debt	School - Homestead	School - Non- homestead	Homestead	Non- homestead
4.5485	0.7500	1.0000	0.2500	2.8670	0.2287	2.6204	5.9300	6.0000	24.0000	43.1576	61.1576
4.5380	0.7483	0.9977	0.2494	2.8670	0.2271	2.6022	5.9300	6.0000	24.0000	42.0802	60.0802
4.4942	0.7445	0.9903	0.2500	2.8409	0.2250	2.5786	5.4500	6.0000	24.0000	41.3014	59.3014
4.7095	0.7366	0.9798	0.2473	2.8117	0.2370	2.5473	5.4000	6.0000	23.9973	41.6711	59.6684
4.6595	0.7288	0.9694	0.2446	2.7806	0.2343	2.5184	5.1500	6.0000	23.9973	40.3626	58.3599
4.6150	0.6218	0.9601	0.2422	2.7559	0.2318	2.4917	5.0000	6.0000	23.9973	40.9807	58.9780
4.5997	0.6218	0.9569	0.3333	2.7495	0.2309	2.4821	4.8300	6.0000	22.9595	41.1954	58.1549
4.5794	0.6218	0.9526	0.3318	2.7453	0.2302	2.4752	4.7500	6.0000	23.9595	40.8675	58.8270
4.5794	0.7162	1.0000	0.3318	2.7495	0.2302	2.4752	6.9000	6.0000	23.9595	43.3635	61.3230
4.5482	0.7113	0.9932	0.3295	2.7088	0.2283	2.4554	6.4000	6.0000	23.9595	42.6559	60.6154

City of Three Rivers, Michigan

Principal Property Taxpayers

Taxpayer	2005 Equivalent Taxable Value (1)	Percentage of Total	1996 Equivalent Taxable Value (2)	Percentage of Total	1996 Rank
1 American Axle & Manufacturing, Inc.	\$ 38,927,166	20.61	\$ 17,313,612	15.19	1
2 Eaton Corporation	8,433,623	4.47	4,485,835	3.93	3
3 Meijer, Inc.	4,736,000	2.51	N/A	N/A	N/A
4 Johnson Corporation	4,606,833	2.44	4,361,456	3.83	4
5 Metal Technologies, Inc.	3,479,948	1.84	4,147,124	3.64	6
6 Armstrong International	3,236,602	1.71	4,150,496	3.64	5
7 Weyerhaeuser	3,007,850	1.59	4,971,370	4.36	2
8 Day International	2,170,782	1.15	2,039,344	1.79	9
9 Indiana Michigan Power	1,983,250	1.05	2,143,303	1.88	8
10 R & D Village Square, LLC	1,769,900	0.94	1,126,863	0.99	11

(1) Equivalent taxable value uses 100 percent taxable value on ad valorem parcels and one-half taxable value on IFT parcels to reflect their half tax status. The 2005 total city equivalent taxable value was \$188,863,421.

(2) Equivalent taxable value uses 100 percent taxable value on ad valorem parcels and one-half taxable value on IFT parcels to reflect their half tax status. The 1996 total city equivalent taxable value was \$114,000,000.

Source: City of Three Rivers

City of Three Rivers, Michigan

Property Tax Levies and Collections

Tax Year	Fiscal Year Ended June 30	Total Levy (1)	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected	Cancellation of Personal Property Tax by Court	Collection Efforts Ongoing
1996	1997	\$ 2,113,422	\$ 2,081,971	98.51	\$ 30,311	\$ 2,112,282	99.95	\$ 1,140	-
1997	1998	2,150,517	2,020,912	93.97	129,159	2,150,071	99.98	446	-
1998	1999	2,185,715	2,035,753	93.14	149,377	2,185,130	99.97	-	585
1999	2000	2,433,142	2,308,275	94.87	124,854	2,433,129	100.00	-	13
2000	2001	2,373,756	2,258,894	95.16	114,792	2,373,686	100.00	-	70
2001	2002	2,609,389	2,469,526	94.64	138,851	2,608,377	99.96	-	1,012
2002	2003	2,737,595	2,598,088	94.90	138,707	2,736,795	99.97	-	800
2003	2004	2,856,581	2,731,739	95.63	123,902	2,855,641	99.97	-	940
2004	2005	2,960,909	2,813,495	95.02	144,428	2,957,923	99.90	-	2,986
2005	2006	2,918,652	2,771,177	94.95	140,393	2,911,570	99.76	-	7,082

- (1) Tax levies reflect adjustments made for tax tribunal consent judgments, board of review decisions, real estate taxes cancelled through foreclosure, and state scavenger sales. Does not include penalty and interest on late payments of taxes. Includes levies on ad valorem properties for city operating, library operating, solid waste management, ambulance, DDA, city streets and sidewalks, and road maintenance millages.

Source: City of Three Rivers

City of Three Rivers, Michigan

Debt Capacity

These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.

City of Three Rivers, Michigan

Ratios of Outstanding Debt

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Governmental Activities										
General obligation bonds	\$ 414,201	\$ 299,964	\$ 173,455	\$ 49,664	\$ 20,000	\$ -	\$ -	\$ 3,342,000	\$ 5,367,000	\$ 5,646,122
Installment purchase agreements	-	106,234	371,824	350,229	267,947	310,915	197,466	112,695	55,453	89,287
Special assessment bonds	80,000	60,000	40,000	20,000	-	-	-	-	-	585,000
Revenue bonds	-	-	-	-	-	-	-	-	-	-
Capital leases	-	-	-	-	-	-	-	-	-	-
Total	494,201	466,198	585,279	419,893	287,947	310,915	197,466	3,454,695	5,422,453	6,320,409
Business-type Activities										
General obligation bonds	2,990,000	2,425,000	1,855,000	1,245,000	7,905,000	7,285,000	6,880,000	6,565,000	6,235,000	5,960,000
Installment purchase agreements	-	-	-	-	-	-	-	-	-	-
Special assessment bonds	-	-	-	-	-	-	-	-	-	-
Revenue bonds	660,000	535,000	405,000	295,000	240,000	185,000	125,000	65,000	-	-
Capital leases	-	-	-	-	-	-	-	-	-	-
Total	3,650,000	2,960,000	2,260,000	1,540,000	8,145,000	7,470,000	7,005,000	6,630,000	6,235,000	5,960,000
Total Debt of the Government	\$ 4,144,201	\$ 3,426,198	\$ 2,845,279	\$ 1,959,893	\$ 8,432,947	\$ 7,780,915	\$ 7,202,466	\$ 10,084,695	\$ 11,657,453	\$ 12,280,409
Total Taxable Value	\$ 105,581,874	\$ 109,656,934	\$ 115,719,507	\$ 124,928,677	\$ 131,921,404	\$ 136,683,889	\$ 141,383,078	\$ 149,805,055	\$ 152,591,483	\$ 153,945,748
Ratio of Total Debt to Taxable Value	3.93%	3.12%	2.46%	1.57%	6.39%	5.69%	5.10%	6.73%	7.64%	7.98%
Total Population	7,413	7,413	7,413	7,328	7,328	7,328	7,328	7,328	7,328	7,328
Total Debt per Capita	\$ 559.05	\$ 462.19	\$ 383.82	\$ 267.45	\$ 1,150.78	\$ 1,061.81	\$ 982.87	\$ 1,376.19	\$ 1,590.81	\$ 1,675.82

Source: City of Three Rivers

City of Three Rivers, Michigan

Direct and Overlapping Governmental Activities Debt

Fiscal Year	Tax-limited General Obligation Bonds (LTGO)	Tax Supported Bonds (UTGO)	Less Pledged Debt Service Funds	Other General Obligation Debt	Net General Bonded Debt	Taxable Value	Debt as a Percentage of Taxable Value	Population	General Bonded Debt per Capita
1997	\$ -	\$ 1,890,000	\$ -	\$ 414,201	\$ 2,304,201	\$ 105,581,874	2.18	7,413	\$ 310.83
1998	1,300,000	1,525,000	-	299,964	3,124,964	109,656,934	2.85	7,413	421.55
1999	1,100,000	1,155,000	-	454,374	2,709,374	115,719,507	2.34	7,413	365.49
2000	900,000	745,000	-	272,722	1,917,722	124,928,677	1.54	7,328	261.70
2001	700,000	365,000	-	182,709	1,247,709	131,921,404	0.95	7,328	170.27
2002	7,500,000	-	-	99,880	7,599,880	136,683,889	5.56	7,328	1,037.10
2003	7,055,000	-	-	34,278	7,089,278	141,383,078	5.01	7,328	967.42
2004	9,200,000	-	-	742,000	9,942,000	149,805,055	6.64	7,328	1,356.71
2005	10,880,000	-	-	722,000	11,602,000	152,591,483	7.60	7,328	1,583.24
2006	10,355,000	-	-	666,122	11,021,122	153,945,748	7.16	7,328	1,503.97

Source: City of Three Rivers

Governmental Unit	Debt Outstanding	Estimated Percent Applicable	Estimated Share of Overlapping Debt
Three Rivers Community Schools	\$ 47,735,000	32.94	\$ 15,723,909
Glen Oaks Community College	1,140,000	9.84	112,176
Total overlapping debt			15,836,085
Direct City debt			10,695,409
Total direct and overlapping debt			<u>\$ 26,531,494</u>

Source: Municipal Advisory Council of Michigan

City of Three Rivers, Michigan

Legal Debt Margin										
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Calculation of Debt Limit (1) -										
State equalized valuation	\$ 105,464,170	\$ 109,922,529	\$ 126,761,317	\$ 141,226,237	\$ 180,568,420	\$ 188,176,838	\$ 205,247,017	\$ 239,657,098	\$ 230,943,812	\$ 255,492,124
10% of State equalized value	10,546,417	10,992,253	12,676,132	14,122,624	18,056,842	18,817,684	20,524,702	23,965,710	23,094,381	25,549,212
Calculation of Debt Subject to Limit										
Total debt	4,144,201	3,426,198	2,845,279	1,959,893	8,432,947	7,780,915	7,202,466	10,084,695	11,657,453	12,280,409
Less debt not subject to limit:										
Michigan Transportation Fund Bonds	(371,835)	(271,253)	(159,177)	(40,000)	(20,000)	-	-	-	-	-
Special assessment bonds	(80,000)	(60,000)	(40,000)	(20,000)	-	-	-	-	-	(585,000)
Revenue bonds	(660,000)	(535,000)	(405,000)	(295,000)	(240,000)	(185,000)	(125,000)	(65,000)	-	-
Net Debt Subject to Limit	\$ 3,032,366	\$ 2,559,945	\$ 2,241,102	\$ 1,604,893	\$ 8,172,947	\$ 7,595,915	\$ 7,077,466	\$ 10,019,695	\$ 11,657,453	\$ 11,695,409
Legal Debt Margin	\$ 7,514,051	\$ 8,432,308	\$ 10,435,030	\$ 12,517,731	\$ 9,883,895	\$ 11,221,769	\$ 13,447,236	\$ 13,946,015	\$ 11,436,928	\$ 13,853,803
Net Debt Subject to Limit as Percent of Debt Limit	28.75%	23.29%	17.68%	11.36%	45.26%	40.37%	34.48%	41.81%	50.48%	45.78%

(1) Debt limit set forth in Section 4a, Act 279 of 1909, and Act 202, P.A. 1943 as amended by Act 42, P.A. 1960.

Source: City of Three Rivers

City of Three Rivers, Michigan

Pledged-revenue Coverage

Fiscal Year	Water and Sewer Revenue Bonds				Special Assessment Bonds			
	Gross Revenues (1)	Applicable Expenses (2)	Net Revenues	Debt Service		Special Assessment Collections	Debt service	
				Principal	Interest		Principal	Interest
				Total	Coverage (3)		Total	Coverage
1997	\$ 1,746,030	\$ 1,078,525	\$ 667,505	\$ 100,000	\$ 35,580	\$ 492.33	\$ 20,000	\$ 6,400
1998	1,820,711	995,501	825,210	125,000	33,043	522.14	20,000	4,800
1999	2,120,258	1,171,650	948,608	130,000	26,790	605.02	20,000	3,200
2000	1,962,160	1,446,319	515,841	110,000	21,728	391.60	20,000	1,600
2001	2,457,084	1,333,957	1,123,127	55,000	14,240	1,622.08	-	-
2002	2,295,533	1,742,246	553,287	55,000	11,655	830.08	-	-
2003	2,656,178	1,758,692	897,486	60,000	9,070	1,299.39	-	-
2004	2,666,432	1,869,079	797,353	60,000	6,190	1,204.64	-	-
2005	2,887,473	2,078,242	809,231	65,000	3,250	1,185.69	-	-
2006	2,879,590	2,060,754	818,836	-	-	-	14,904	14,904

- (1) Gross revenues include interest income.
 (2) Applicable expenses do not include depreciation or interest expense.
 (3) Revenue bond coverage is equal to net revenues divided by total debt service.
 (4) Special assessment bond coverage is equal to special assessments divided by total debt service.

Source: City of Three Rivers

City of Three Rivers, Michigan

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Three Rivers, Michigan

Demographic and Economic Statistics

<u>Fiscal Year</u>	<u>Population</u>	<u>Median Household Income</u>	<u>Per Capita Income</u>	<u>Unemployment Rate</u>
1997	7,413	\$ 26,144	\$ 10,814	4.10
1998	7,413	26,144	10,814	4.30
1999	7,413	26,144	10,814	4.50
2000	7,328	32,460	16,279	4.47
2001	7,328	32,460	16,279	9.50
2002	7,328	32,460	16,279	8.70
2003	7,328	32,460	16,279	10.70
2004	7,328	32,460	16,279	7.80
2005	7,328	32,460	16,279	6.70
2006	7,328	32,460	16,279	8.40

Source: U.S. Census Bureau

City of Three Rivers, Michigan

Principal Employers

Taxpayer	2006 Employees	Percentage of Total	1997 Employees	Percentage of Total	1997 Rank
1 American Axle & Manufacturing, Inc.	1,135	19.68	875	17.19	1
2 Three Rivers Area Hospital	508	8.81	475	9.33	2
3 Meijer, Inc.	430	7.46	N/A	N/A	N/A
4 Three Rivers Community Schools	400	6.94	380	7.47	3
5 Eaton Corporation	360	6.24	320	6.29	4
6 Armstrong International	280	4.86	300	5.90	5
7 Lasco Bathware	200	3.47	191	3.75	6
8 Metal Technologies, Inc.	170	2.95	128	2.52	9
9 Weyerhaeuser	140	2.43	135	2.65	8
10 Johnson Corporation	138	2.39	161	3.16	7

City of Three Rivers, Michigan

Full-time Equivalent Governmental Employees

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government:										
City manager	1	1	1	1	2	2	2	2	2	2
Administrative services	1	1	1	1	1	1	1	1	1	1
City clerk	3	3	3	3	3	3	3	3	3	3
Finance department	4	4	4	4	4	4	4	4	4	4
Cemetery	2	2	2	2	2	2	1	1	1	1
Airport	1	1	1	1	1	1	1	1	1	1
Public safety:										
Police	18	18	19	19	20	20	20	19	20	20
Fire and EMS	9	9	10	10	12	12	13	13	13	15
Building inspection	1	1	1	1	1	1	1	1	1	1
Public works:										
DPS	12	12	14	15	14	14	16	17	17	17
Water and sewer	4	4	5	5	6	6	6	6	6	6
Parks and recreation	1	1	1	1	1	1	3	4	5	5
Library	3	3	3	3	3	3	3	3	3	2
Total	<u>60</u>	<u>60</u>	<u>65</u>	<u>66</u>	<u>70</u>	<u>70</u>	<u>74</u>	<u>75</u>	<u>77</u>	<u>78</u>

Note: Under general government, the positions for the City Assessor and the City Attorney are contracted positions and are not considered City employees.

Source: City of Three Rivers

City of Three Rivers, Michigan

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Three Rivers, Michigan

Operating Indicators

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Election data - Election #1:										
Registered voters	5,058	5,300	5,318	5,500	5,024	5,051	4,911	4,857	4,957	4,625
Voters (at the polls or absentee)	524	723	702	590	473	416	974	235	386	485
Percent voting	10.4%	13.6%	13.2%	10.7%	9.4%	8.2%	19.8%	4.8%	7.8%	10.5%
Election data - Election #2:										
Registered voters	5,156	-	5,318	5,192	4,935	-	4,844	4,885	4,963	4,675
Voters (at the polls or absentee)	2,309	-	1,563	699	2,236	-	1,564	356	2,693	736
Percent voting	44.8%	-	29.4%	13.5%	45.3%	-	32.3%	7.3%	54.3%	15.7%
Election data - Election #3:										
Registered voters	-	-	-	-	-	-	-	-	4,871	-
Voters (at the polls or absentee)	-	-	-	-	-	-	-	-	284	-
Percent voting	-	-	-	-	-	-	-	-	5.8%	-
Police:										
Physical arrests	793	1,006	1,054	1,052	1,142	1,335	1,601	1,844	1,574	1,592
Traffic violations	953	884	1,324	1,226	2,417	2,921	2,866	4,081	3,707	3,525
Investigations	1,633	2,390	2,538	2,208	1,733	2,710	2,946	3,125	2,790	2,740
Fire and ambulance:										
Fire runs	257	532	292	309	325	338	382	412	350	290
Emergency medical runs	1,332	1,067	831	1,074	1,261	1,192	1,336	1,588	1,585	1,456
Interfacility transfers	280	243	192	156	498	544	502	524	597	715
Wheelchair transfers	460	549	602	528	586	536	429	512	647	571
Inspections (per unit)	N/A	N/A	N/A	224	82	335	397	777	289	138
Parks and recreation:										
Number of recreation programs	-	-	-	-	-	-	13	14	5	8
Recreation program attendance	-	-	-	-	-	-	635	515	210	220
Special Feature Presentation attendance	-	-	-	-	-	-	-	-	5,400	-
Library:										
Circulation (books borrowed)	79,517	92,489	94,705	72,454	66,057	69,031	62,055	62,851	66,228	65,557
Collection volume	51,538	50,355	44,060	47,809	45,145	48,386	46,985	45,039	52,353	48,968
Water:										
Number of customers billed	2,534	2,545	2,586	2,591	2,619	2,545	2,570	2,568	2,608	2,752
Total consumption in cubic feet	33,576,861	30,977,524	33,866,770	32,501,296	30,788,988	29,751,222	30,386,555	28,222,161	30,483,433	28,991,497
Average consumption per user (cu. ft.)	13,253	12,170	13,096	12,544	11,755	11,691	11,823	10,991	11,688	10,537
Sewer - Average daily sewage treatment (MGD)										
	1.03	1.43	1.37	1.43	1.50	1.40	1.28	1.43	1.37	1.38

Source: City of Three Rivers

City of Three Rivers, Michigan

Capital Asset Statistics

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	4	4	4	4	4	4	4	4	4	4
Detective unit	1	1	1	1	1	1	1	1	1	1
Police chief command vehicle	1	1	1	1	1	1	1	1	1	1
K-9 unit	1	1	1	1	1	1	1	1	1	1
Fire:										
Stations	1	1	1	1	1	1	1	1	1	1
Fire response vehicles	4	3	3	3	3	3	3	3	3	3
Ambulance units	2	2	2	2	3	3	3	3	3	4
Rescue vehicles	1	1	1	1	1	1	1	1	1	1
Command vehicle	1	1	1	1	1	1	1	1	1	1
Wheelchair transport vehicles	1	1	1	1	1	1	1	1	1	1
Public works:										
Streets (miles):										
Major streets	12.94	12.94	13.47	13.47	13.47	13.47	13.47	13.52	13.52	13.52
Local streets	30.20	30.25	30.25	30.25	30.25	30.25	30.25	30.25	30.25	31.35
Streetlights	93	93	93	93	93	93	93	93	93	93
Parks and recreation:										
Acreage	52.09	52.09	52.09	52.09	52.09	52.09	52.09	52.09	52.09	52.09
Developed parks/playgrounds	38.19	38.19	38.19	38.19	38.19	38.19	38.19	38.19	38.19	42.49
Developed fields (soccer, baseball, etc.)	9.60	9.60	9.60	9.60	9.60	9.60	9.60	9.60	9.60	9.60
Libraries:										
Branches	1	1	1	1	1	1	1	1	1	1
Book collections	50,643	48,831	42,121	45,513	42,794	45,825	44,150	45,039	49,131	45,182
Water:										
Mains (miles)	56.606	56.606	56.606	56.606	57.430	57.856	57.856	58.120	61.222	61.565
Fire hydrants	450	450	450	450	450	450	450	450	450	450
Storage capacity (gallons)	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Sewer:										
Miles of sanitary sewers	48.720	48.720	48.720	48.720	48.720	48.856	48.856	49.376	52.952	53.253
Miles of storm sewers	18.811	18.898	18.898	18.898	18.904	18.959	19.276	19.443	19.914	20.315
Treatment capacity (MGD)	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75

Source: City of Three Rivers